SMUCKER J M CO
Form 10-Q
March 11, 2010

# UNITED STATES <br> SECURITIES AND EXCHANGE COMMISSION <br> WASHINGTON, D.C. 20549 <br> FORM 10-Q 

## p QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2010
or

## o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

## For the transition period from

 to $\qquad$Commission file number 1-5111
THE J. M. SMUCKER COMPANY
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of incorporation or organization)

One Strawberry Lane
Orrville, Ohio 44667-0280
(Address of principal executive offices)

34-0538550
(I.R.S. Employer Identification No.) (Zip code)

Registrant s telephone number, including area code: (330) 682-3000
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes $p$ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T
( $\$ 232.405$ of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer p Accelerated filer o Non-accelerated filer o Smaller reporting company o (Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act of 1934.

Yes o No p
The Company had 119,122,549 common shares outstanding on February 28, 2010.
The Exhibit Index is located at Page No. 27.

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## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
Three Months Ended
Nine Months Ended
January 31, 2010

2009

January 31, 20102009
(Dollars in thousands, except per share data)
Net sales
Cost of products sold
Gross Profit
Selling, distribution, and administrative
expenses

Amortization
Impairment charges
Merger and integration costs
Restructuring costs
Other operating expense (income) net

| Operating Income | 209,641 | 135,459 | 609,166 | 293,584 |
| :--- | ---: | ---: | ---: | ---: |
| Interest income | 310 | 1,822 | 2,367 | 5,061 |
| Interest expense | $(14,236)$ | $(21,959)$ | $(50,660)$ | $(44,017)$ |
| Other income (expense) net | 1,446 | $(966)$ | 2,524 | 400 |
|  |  |  |  |  |
| Income Before Income Taxes | 197,161 | 114,356 | 563,397 | 255,028 |
| Income taxes | 61,682 | 36,415 | 189,865 | 83,343 |
| Net Income |  |  |  |  |

Earnings per common share:

| Net Income | $\$$ | 1.14 | $\$$ | 0.68 | $\$$ | 3.14 | $\$$ | 2.29 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Net Income $\quad$ Assuming Dilution | $\$$ | 1.14 | $\$$ | 0.68 | $\$$ | 3.14 | $\$$ | 2.29 |
| Dividends declared per common share |  |  |  |  |  |  |  |  |
|  | $\$$ | 0.35 | $\$$ | 0.32 | $\$$ | 1.05 | $\$$ | 5.96 |

See notes to unaudited condensed consolidated financial statements.

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| ASSETS |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| CURRENT ASSETS |  |  |  |  |
| Cash and cash equivalents | \$ | 125,561 | \$ | 456,693 |
| Trade receivables, less allowances |  | 281,678 |  | 266,037 |
| Inventories: |  |  |  |  |
| Finished products |  | 409,896 |  | 409,592 |
| Raw materials |  | 253,540 |  | 194,334 |
|  |  | 663,436 |  | 603,926 |
| Other current assets |  | 52,151 |  | 72,235 |
| Total Current Assets |  | 1,122,826 |  | 1,398,891 |
| PROPERTY, PLANT, AND EQUIPMENT |  |  |  |  |
| Land and land improvements |  | 60,012 |  | 51,131 |
| Buildings and fixtures |  | 300,630 |  | 273,343 |
| Machinery and equipment |  | 987,556 |  | 901,614 |
| Construction in progress |  | 34,867 |  | 48,593 |
|  |  | $\begin{gathered} 1,383,065 \\ (515,443) \end{gathered}$ |  | $\begin{gathered} 1,274,681 \\ (436,248) \end{gathered}$ |
| Total Property, Plant, and Equipment |  | 867,622 |  | 838,433 |
| OTHER NONCURRENT ASSETS |  |  |  |  |
| Goodwill |  | 2,804,305 |  | 2,791,391 |
| Other intangible assets, net |  | 3,042,864 |  | 3,098,976 |
| Marketable securities |  |  |  | 12,813 |
| Other noncurrent assets |  | 61,815 |  | 51,657 |
| Total Other Noncurrent Assets |  | 5,908,984 |  | 5,954,837 |
|  |  | 7,899,432 | \$ | 8,192,161 |
| LIABILITIES AND SHAREHOLDERS EQUITY |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
| Accounts payable | \$ | 150,441 | \$ | 198,954 |
| Accrued trade marketing and merchandising |  | 112,490 |  | 54,281 |
| Note payable |  |  |  | 350,000 |
| Current portion of long-term debt |  | 10,000 |  | 276,726 |
| Other current liabilities |  | 195,352 |  | 181,275 |
| Total Current Liabilities |  | 468,283 |  | 1,061,236 |

NONCURRENT LIABILITIES

| Long-term debt | 900,000 | 910,000 |
| :--- | ---: | ---: |
| Deferred income taxes | $1,151,769$ | $1,145,808$ |
| Other noncurrent liabilities | 139,136 | 135,186 |
|  |  |  |
| Total Noncurrent Liabilities | $2,190,905$ | $2,190,994$ |
| SHAREHOLDERS EQUITY | 29,781 | 29,606 |
| Common shares | $4,571,821$ | $4,547,921$ |
| Additional capital | 673,097 | 424,504 |
| Retained income | $(4,069)$ | $(4,830)$ |
| Amount due from ESOP Trust | $(30,386)$ | $(57,270)$ |
| Accumulated other comprehensive loss |  |  |
|  | $5,240,244$ | $4,939,931$ |
| Total Shareholders Equity | $\$ 7,899,432$ | $\$$ |
|  |  | $8,192,161$ |

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

|  | Nine Months Ended January31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | 2010 |  | 2009 |
|  | (Dollars in thousands) |  |  |  |
| OPERATING ACTIVITIES |  |  |  |  |
| Net income | \$ | 373,532 | \$ | 171,685 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |
| Depreciation |  | 78,889 |  | 54,016 |
| Amortization |  | 55,259 |  | 22,763 |
| Impairment charges |  | 9,807 |  | 748 |
| Share-based compensation expense |  | 18,796 |  | 12,836 |
| Changes in assets and liabilities, net of effect from businesses acquired: |  |  |  |  |
| Trade receivables |  | $(13,099)$ |  | $(73,294)$ |
| Inventories |  | $(51,627)$ |  | $(18,880)$ |
| Accounts payable and accrued items |  | $(11,140)$ |  | 93,705 |
| Other adjustments |  | 48,269 |  | 25,431 |
| Net cash provided by operating activities |  | 508,686 |  | 289,010 |
| INVESTING ACTIVITIES |  |  |  |  |
| Businesses acquired, net of cash acquired |  |  |  | $(72,149)$ |
| Additions to property, plant, and equipment |  | $(112,664)$ |  | $(84,888)$ |
| Sale and maturities of marketable securities |  | 13,519 |  | 1,308 |
| Disposals of property, plant, and equipment |  | 2,900 |  | 2,567 |
| Other net |  | (832) |  | 6,877 |
| Net cash used for investing activities |  | $(97,077)$ |  | $(146,285)$ |
| FINANCING ACTIVITIES |  |  |  |  |
| Repayment of bank note payable |  | $(350,000)$ |  |  |
| Proceeds from long-term debt |  |  |  | 400,000 |
| Repayments of long-term debt |  | $(275,000)$ |  |  |
| Quarterly dividends paid |  | $(124,586)$ |  | $(72,815)$ |
| Special dividends paid |  |  |  | $(274,208)$ |
| Purchase of treasury shares |  | $(5,431)$ |  | $(3,356)$ |
| Proceeds from stock option exercises |  | 6,310 |  | 1,850 |
| Other net |  | 1,723 |  | $(1,150)$ |
| Net cash (used for) provided by financing activities |  | $(746,984)$ |  | 50,321 |
| Effect of exchange rate changes |  | 4,243 |  | $(4,680)$ |
| Net (decrease) increase in cash and cash equivalents |  | $(331,132)$ |  | 188,366 |
| Cash and cash equivalents at beginning of period |  | 456,693 |  | 171,541 |

Cash and cash equivalents at end of period
\$ 125,561
\$ 359,907
() Denotes use of cash
See notes to unaudited condensed consolidated financial statements.

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# THE J. M. SMUCKER COMPANY <br> NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 

(Dollars in thousands, except per share data)
Note A Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to current year classifications.
Operating results for the nine-month period ended January 31, 2010, are not necessarily indicative of the results that may be expected for the year ending April 30, 2010. For further information, reference is made to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended April 30, 2009.
Note B Recently Issued Accounting Standards
In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification ( ASC ) and the Hierarchy of Generally Accepted Accounting Principles ( GAAP ), which established that the ASC is the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ( SEC ), which are sources of authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of this guidance as of October 31, 2009, and has updated its references to specific GAAP literature to reflect the codification. FASB ASC 715, Compensation Retirement Benefits, (formerly FASB Staff Position No. FAS 132(R)-1,
Employers Disclosures about Postretirement Benefit Plan Assets), provides guidance on employers disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosure requirements of this standard are effective April 30, 2010, for the Company.
In January 2010, the FASB issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements, which requires additional disclosures about fair value measurements including transfers in and out of different levels of the fair value hierarcy and a higher level of disaggregation for different types of financial instruments. The disclosure requirements of this standard are effective April 30, 2010, for the Company.
The Company is currently assessing the impact, if any, on the consolidated financial statements of recently issued accounting standards that are not yet effective for the Company.
Note C Folgers Merger
On November 6, 2008, the Company merged The Folgers Coffee Company ( Folgers ), a subsidiary of The Procter \& Gamble Company ( P\&G ), with a wholly-owned subsidiary of the Company. Under the terms of the agreement, P\&G distributed the Folgers common shares to electing P\&G shareholders in a tax-free transaction, which was immediately followed by the conversion of Folgers common stock into Company common shares. As a result of the merger, Folgers became a wholly-owned subsidiary of the Company. In the merger, P\&G shareholders received approximately 63.2 million common shares of the Company valued at approximately $\$ 3,366.4$ million based on the average closing price of the Company s common shares for the period beginning two trading days before and concluding two trading days after the announcement of the

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transaction on June 4, 2008. After closing of the transaction on November 6, 2008, the Company had approximately 118 million common shares outstanding. As part of the transaction, the Company s debt obligations increased by $\$ 350.0$ million as a result of Folgers variable rate bank debt.
The transaction with Folgers, the leading producer of retail packaged coffee products in the United States, is consistent with the Company s strategy to own and market number one brands in North America. For accounting purposes, the Company was the acquiring enterprise. The merger was accounted for as a purchase business combination. Accordingly, the results of the Folgers business are included in the Company s consolidated financial statements from the date of the merger. The aggregate purchase price was approximately $\$ 3,735.8$ million, including $\$ 19.4$ million of capitalized transaction related expenses. In addition, the Company incurred costs of $\$ 92.3$ million to date, that were directly related to the merger and integration of Folgers. Due to the nature of these costs, they were expensed as incurred. Total transaction costs of $\$ 111.7$ million incurred to date include approximately $\$ 12.4$ million in noncash expense items.
The Folgers purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the merger. The Company determined the estimated fair values with the assistance of independent appraisals, discounted cash flow analyses, quoted market prices, and estimates made by management. To the extent the purchase price exceeded the fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill.
The following table summarizes the fair values of the assets acquired and liabilities assumed at the transaction date.
Assets acquired:
Current assets
\$ 300,781
Property, plant, and equipment 316,851
Intangible assets 2,515,000
Goodwill 1,643,636
Other noncurrent assets 4,278
Total assets acquired \$4,780,546

Liabilities assumed:
Current liabilities $\$ 85,795$
Deferred tax liabilities 955,235
Noncurrent liabilities 3,750
Total liabilities assumed \$1,044,780

Net assets acquired \$3,735,766

Had the merger occurred on May 1, 2008, unaudited, pro forma consolidated results would have been as follows:

|  |  |  | Three Months Ended nuary 31, 2009 | Nine Months Ended January 31, 2009 |
| :---: | :---: | :---: | :---: | :---: |
| Net sales |  |  | 1,210,065 | \$ 3,616,206 |
| Net income |  |  | 83,039 | 265,712 |
| Net income per common share | assuming dilution |  | 0.70 | 2.25 |

The unaudited, pro forma consolidated results are based on the Company s historical financial statements and those of the Folgers business and do not necessarily indicate the results of operations that would have resulted had the merger
been completed at the beginning of the applicable period presented. The unaudited, pro forma consolidated results do not give effect to the synergies of the merger and are not indicative of the results of operations in future periods.

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## Note D Share-Based Payments

The Company provides for equity-based incentives to be awarded to key employees and nonemployee directors. These incentives are administered through various plans, and currently consist of restricted shares, restricted stock units, deferred stock units, performance units, and stock options.
Compensation expense related to share-based awards was $\$ 5,698$ and $\$ 6,801$ for the three months ended January 31, 2010 and 2009, and $\$ 18,796$ and $\$ 12,836$ for the nine months ended January 31, 2010 and 2009, respectively. Of the total compensation expense for share-based awards, $\$ 1,067$ and $\$ 4,344$ is included in merger and integration costs in the Condensed Statements of Consolidated Income for the three months and nine months ended January 31, 2010, respectively, and $\$ 3,873$ for the three months and nine months ended January 31, 2009. The related tax benefit recognized was $\$ 1,750$ and $\$ 2,165$ for the three months ended January 31, 2010 and 2009, and $\$ 6,334$ and $\$ 4,178$ for the nine months ended January 31, 2010 and 2009, respectively.
As of January 31, 2010, total compensation cost related to nonvested share-based awards not yet recognized was approximately $\$ 37,796$. The weighted-average period over which this amount is expected to be recognized is approximately 3.0 years.
Note E Impairment Charges
During the three months ended January 31, 2010, the Company became aware of a significant future reduction in its Europe s Best ${ }^{\circledR}$ frozen fruit business with a customer in Canada. The Company determined that this event constituted a potential indicator of impairment of the Europe s Best ${ }^{\circledR}$ indefinite-lived and the finite-lived intangible assets recognized in its special markets segment under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 350, Intangibles Goodwill and Other (formerly Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets) and FASB ASC 360, Property, Plant, and Equipment (formerly Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), respectively.
The Company determined the fair value of the Europe s Best ${ }^{\circledR}$ indefinite-lived trademark based on an analysis of the projected cash flows for the brand, discounted at a rate developed using a risk-adjusted, weighted-average cost of capital methodology. An impairment charge of $\$ 7,282$ was recognized during the three months ended January 31, 2010, to reduce this trademark to its estimated fair value.
The Company concluded that the carrying amount of the finite-lived customer relationship intangible asset associated with the Europe s Best ${ }^{\circledR}$ business was recoverable based on the undiscounted projected net cash flows estimated by the Company to be generated from the asset group. Accordingly, no impairment charge was recognized on the finite-lived customer relationship.
Based on the relative insignificance of the Europe $s$ Best ${ }^{\circledR}$ business to its respective reporting unit, the Company determined it was not necessary to test for impairment of goodwill at the reporting unit level. Testing of the reporting unit will be part of the Company s annual assessment of goodwill as of February 1, 2010.
In addition, approximately $\$ 2,525$ and $\$ 748$ of impairment was recognized related to other finite and indefinite-lived intangible assets during the three-month and nine-month periods ended January 31, 2010 and 2009, respectively. Note F Common Shares
At January 31, 2010, 150,000,000 common shares were authorized. There were 119,122,191 and 118,422,123 shares outstanding at January 31, 2010 and April 30, 2009, respectively. Shares outstanding are shown net of 9,481,974 and 10,179,989 treasury shares at January 31, 2010 and April 30, 2009, respectively.

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Note G Reportable Segments
The Company operates in one industry: the manufacturing and marketing of food products. The Company has four reportable segments: U.S. retail coffee market, U.S. retail consumer market, U.S. retail oils and baking market, and special markets. The U.S. retail coffee market segment represents the domestic sales of Folgers ${ }^{\circledR}$, Dunkin Donuts ${ }^{\circledR}$, and Millstone ${ }^{\circledR}$ branded coffee to retail customers; the U.S. retail consumer market segment primarily includes domestic sales of Smucker $s^{\circledR}$, Jif $f^{\circledR}$, and Hungry Jack ${ }^{\circledR}$ branded products; the U.S. retail oils and baking market segment includes domestic sales of Crisco ${ }^{\circledR}$, Pillsbury ${ }^{\circledR}$, Eagle Brand ${ }^{\circledR}$, Martha White ${ }^{\circledR}$, and White Lily ${ }^{\circledR}$ branded products; and the special markets segment is comprised of the Canada, foodservice, natural foods (formerly beverage), and international strategic business areas. Special markets segment products are distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (e.g., restaurants, schools and universities, health care operations), and health and natural foods stores and distributors.
The following table sets forth reportable segment information.
Three Months Ended
January 31,
2010

Nine Months Ended
January 31, 20102009

Net sales:

| U.S. retail coffee market | \$ | 471,463 | \$ | 431,997 |  | 1,282,794 | \$ 431,997 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| U.S. retail consumer market |  | 273,837 |  | 270,465 |  | 854,929 |  | 846,142 |
| U.S. retail oils and baking market |  | 244,175 |  | 278,793 |  | 742,487 |  | 810,245 |
| Special markets |  | 216,464 |  | 201,339 |  | 656,000 |  | 601,009 |
| Total net sales | \$ 1,205,939 |  | \$ 1,182,594 |  |  | 3,536,210 | \$ 2,689,393 |  |
| Segment profit: |  |  |  |  |  |  |  |  |
| U.S. retail coffee market | \$ | 148,564 | \$ | 91,886 | \$ | 424,387 | \$ | 91,886 |
| U.S. retail consumer market |  | 66,460 |  | 62,750 |  | 204,495 |  | 190,609 |
| U.S. retail oils and baking market |  | 39,244 |  | 47,509 |  | 115,855 |  | 106,471 |
| Special markets |  | 38,607 |  | 25,314 |  | 108,064 |  | 72,503 |
| Total segment profit | \$ | 292,875 | \$ | 227,459 | \$ | 852,801 | \$ | 461,469 |
| Interest income |  | 310 |  | 1,822 |  | 2,367 |  | 5,061 |
| Interest expense |  | $(14,236)$ |  | $(21,959)$ |  | $(50,660)$ |  | $(44,017)$ |
| Amortization |  | $(18,570)$ |  | $(19,810)$ |  | $(55,259)$ |  | $(22,763)$ |
| Impairment charges |  | $(9,807)$ |  | (748) |  | $(9,807)$ |  | (748) |
| Share-based compensation expense |  | $(4,631)$ |  | $(2,928)$ |  | $(14,452)$ |  | $(8,963)$ |
| Merger and integration costs |  | $(4,672)$ |  | $(32,809)$ |  | $(29,296)$ |  | $(42,419)$ |
| Restructuring costs |  |  |  | (257) |  |  |  | (903) |
| Corporate administrative expenses |  | $(46,231)$ |  | $(33,667)$ |  | $(129,173)$ |  | $(90,295)$ |
| Other unallocated income (expense) |  | 2,123 |  | $(2,747)$ |  | $(3,124)$ |  | $(1,394)$ |
| Income before income taxes | \$ | 197,161 | \$ | 114,356 | \$ | 563,397 | \$ | 255,028 |

Segment performance for the three-month and nine-month periods ended January 31, 2009, has been reclassified to include Canadian Folgers results in the special markets segment, rather than in the U.S. retail coffee market segment, consistent with the 2010 presentation.

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Note H Debt and Financing Arrangements
Long-term debt consists of the following:

|  | January 31,$2010$ |  | $\begin{array}{r} \text { April 30, } 2009 \end{array}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| 6.77\% Senior Notes due June 1, 2009 | \$ |  | \$ | 75,000 |
| 6.60\% Senior Notes due November 13, 2009 |  |  |  | 201,726 |
| 7.94\% Series C Senior Notes due September 1, 2010 |  | 10,000 |  | 10,000 |
| 4.78\% Senior Notes due June 1, 2014 |  | 100,000 |  | 100,000 |
| 6.12\% Senior Notes due November 1, 2015 |  | 24,000 |  | 24,000 |
| 6.63\% Senior Notes due November 1, 2018 |  | 376,000 |  | 376,000 |
| 5.55\% Senior Notes due April 1, 2022 |  | 400,000 |  | 400,000 |
| Total long-term debt | \$ | 910,000 | \$ | 1,186,726 |
| Current portion of long-term debt |  | 10,000 |  | 276,726 |
| Total long-term debt less current portion | \$ | 900,000 | \$ | 910,000 |

All of the Company s Senior Notes are unsecured, and interest is paid annually on the 6.60 percent Senior Notes and semiannually on the other notes. Periodic payments are required on the 5.55 percent Senior Notes, the first of which is \$50.0 million on April 1, 2013.
On October 29, 2009, the Company entered into an unsecured, three-year, $\$ 400.0$ million revolving credit facility with a group of five banks. The Company also has available a $\$ 180.0$ million revolving credit facility with a group of three banks maturing on January 31, 2011. Interest on the revolving credit facilities is based on prevailing U.S. prime, Canadian Base Rate, London Interbank Offered Rate, or Canadian Dealer Offered Rate, as determined by the Company, and is payable either on a quarterly basis or at the end of the borrowing term.
During the nine months ended January 31, 2010, the Company repaid $\$ 75.0$ million of 6.77 percent Senior Notes, $\$ 200.0$ million of 6.60 percent Senior Notes, and $\$ 350.0$ million of Folgers bank debt, as scheduled, utilizing a combination of cash on hand and borrowings of approximately $\$ 100.0$ million against the $\$ 180.0$ million credit facility. At January 31, 2010, the Company did not have a balance outstanding under either revolving credit facility. The Company s debt instruments contain certain financial covenant restrictions including consolidated net worth, leverage ratios, and interest coverage ratios. The Company is in compliance with all covenants.

## Note I Earnings per Share

On May 1, 2009, the Company adopted the two-class method of computing earnings per share as required by Financial Accounting Standards Board Accounting Standards Codification 260, Earnings Per Share ( ASC 260 ), (formerly Statement of Financial Accounting Standards No. 128, Earnings Per Share). ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method described in ASC 260. The Company s unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share. All presented prior period earnings per share data has been adjusted to retrospectively reflect the application of the two-class method for the three months and nine months ended January 31, 2009, resulting in a reduction of the Company s net income per common share and net income per common share assuming dilution of $\$ 0.02$ and $\$ 0.01$ per share, respectively. Additionally, the conversion to the two-class method resulted in a reduction of the Company s net income per common share and net income per common share assuming dilution for the year ended April 30, 2009, of $\$ 0.03$ and $\$ 0.01$ per share, respectively.

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The following tables set forth the computation of earnings per common share and earnings per common share assuming dilution.

|  | $\begin{array}{rr}\text { Three Months Ended January 31, } \\ 2010 & 2009\end{array}$ |  |  |  | Nine Months Ended January31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Computation of Basic Earnings Per Share: Net income | \$ | 135,479 | \$ | 77,941 | \$ | 373,532 | \$ | 171,685 |
| Net income allocated to participating securities |  | 1,191 |  | 571 |  | 3,272 |  | 1,294 |
| Net income allocated to common stockholders | \$ | 134,288 | \$ | 77,370 | \$ | 370,260 | \$ | 170,391 |
| Weighted-average common shares outstanding basic |  | 8,022,195 |  | 081,023 |  | ,855,028 |  | ,249,584 |
| Net income per common share basic | \$ | 1.14 | \$ | 0.68 | \$ | 3.14 | \$ | 2.29 |
|  | $\begin{array}{rr}\text { Three Months Ended January 31, } \\ 2010 & 2009\end{array}$ |  |  |  | Nine Months Ended January |  |  | anuary $2009$ |
| Computation of Diluted Earnings Per |  |  |  |  |  |  |  |  |
| Net income | \$ | 135,479 | \$ | 77,941 | \$ | 373,532 | \$ | 171,685 |
| Net income allocated to participating securities |  | 1,190 |  | 571 |  | 3,270 |  | 1,298 |
| Net income allocated to common stockholders | \$ | 134,289 | \$ | 77,370 | \$ | 370,262 | \$ | 170,387 |
| Weighted-average common shares outstanding basic | Weighted-average common shares |  |  |  |  | ,855,028 |  | ,249,584 |
| Dilutive effect of stock options |  | 147,732 |  | 65,011 |  | 124,524 |  | 117,350 |
| Weighted-average common shares outstanding assuming dilution |  | 8,169,927 |  | 146,034 |  | ,979,552 |  | ,366,934 |
| Net income per common share assuming |  |  |  |  |  |  |  |  |

The following table reconciles the weighted-average common shares used in the basic and diluted earnings per share disclosures to the total weighted-average shares outstanding.

Three Months Ended January
31,
Nine Months Ended January
31,

|  | 2010 | 2009 | 2010 | 2009 |
| :--- | ---: | ---: | ---: | ---: |
| Weighted-average common shares <br> outstanding | $118,022,195$ | $114,081,023$ | $117,855,028$ | $74,249,584$ |
| Weighted-average participating shares <br> outstanding | $1,046,988$ | 841,794 | $1,041,644$ | 564,003 |
| Total weighted-average shares outstanding |  |  |  |  |
| basic <br> Dilutive effect of stock options | $119,069,183$ | $114,922,817$ | $118,896,672$ | $74,813,587$ |
|  | 147,732 | 65,011 | 124,524 | 117,350 |
| Total weighted-average shares outstanding |  |  |  |  |
| assuming dilution | $119,216,915$ | $114,987,828$ | $119,021,196$ | $74,930,937$ |

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Note J Pensions and Other Postretirement Benefits
The components of the Company s net periodic benefit cost for defined benefit pension plans and other postretirement benefits are shown below.

|  | Three Months Ended January 31, |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Defined Benefit Pension Plans |  |  |  | Other Postretirement Benefits |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  | 2010 |  | 2009 |  | 2010 |  | 2009 |
| Service cost |  | \$ 1,430 |  | \$ 1,452 | \$ | 495 | \$ | 241 |
| Interest cost |  | 6,196 |  | 6,420 |  | 655 |  | 623 |
| Expected return on plan assets |  | $(5,750)$ |  | $(7,302)$ |  |  |  |  |
| Recognized net actuarial loss (gain) |  | 1,585 |  | 327 |  | (261) |  | (182) |
| Other |  | 308 |  | 323 |  | (123) |  | (122) |
| Net periodic benefit cost |  | 3,769 |  | \$ 1,220 | \$ | 766 | \$ | 560 |


|  | Nine Months Ended January 31, |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Defined Benefit PensionPlans |  |  | Other Postretirement Benefits |  |  |  |
|  | 2010 |  | 2009 |  | 2010 |  | 2009 |
| Service cost | \$ 4,263 |  | 4,419 | \$ | 1,483 | \$ | 726 |
| Interest cost | 18,460 |  | 19,875 |  | 1,949 |  | 1,919 |
| Expected return on plan assets | $(17,109)$ |  | $(22,659)$ |  |  |  |  |
| Recognized net actuarial loss (gain) | 4,706 |  | 1,029 |  | (782) |  | (548) |
| Other | 925 |  | 971 |  | (367) |  | (366) |
| Net periodic benefit cost | \$ 11,245 | \$ | 3,635 | \$ | 2,283 | \$ | 1,731 |

Note K Comprehensive Income
The following table summarizes the components of comprehensive income.

|  | Three Months Ended January 31, |  | Nine Months Ended January 31, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 135,479 | \$77,941 | \$ 373,532 | \$ 171,685 |
| Other comprehensive income: |  |  |  |  |
| Foreign currency translation adjustments | 3,184 | $(3,741)$ | 26,852 | $(51,854)$ |
| Unrealized gain (loss) on available-for-sale securities | 624 | $(2,913)$ | 3,384 | $(6,027)$ |
| Unrealized loss on cash flow hedging derivatives | $(2,494)$ | $(2,180)$ | $(3,364)$ | $(17,846)$ |
| Income tax benefit | 678 | 1,858 | 12 | 8,735 |
| Comprehensive income | \$ 137,471 | \$70,965 | \$ 400,416 | \$ 104,693 |

Note L Commitments and Contingencies

The Company, like other food manufacturers, is from time to time subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. The Company is a defendant in a variety of legal proceedings, some of which involve claims for damages in unspecified amounts. The Company cannot predict with certainty the results of these proceedings or reasonably determine a range of potential loss. The Company s policy is to accrue costs for contingent liabilities when such liabilities are probable and amounts can be reasonably estimated. Based on information known to date, the Company does not believe the final outcome of these proceedings will have a material adverse effect on the Company s financial position, results of operations, or cash flows.

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## Note M Derivative Financial Instruments

The Company is exposed to market risks, such as changes in foreign currency exchange rates and commodity pricing. To manage the volatility relating to these exposures, the Company enters into various derivative transactions. By policy, the Company historically has not entered into derivative financial instruments for trading purposes or for speculation.
Commodity Price Management. The Company enters into commodity futures and options contracts to manage the price volatility and reduce the variability of future cash flows related to anticipated inventory purchases of green coffee, edible oils, flour, milk, and corn. The Company also enters into commodity futures and options to manage price risk for energy input costs, including natural gas and diesel fuel. The derivative instruments generally have maturities of less than one year.
Certain of the derivative instruments associated with the Company s U.S. retail oils and baking market and U.S. retail coffee market segments meet the hedge criteria according to Financial Accounting Standards Board Accounting Standards Codification 815, Derivatives and Hedging ( ASC 815 ), (formerly Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities), and are accounted for as cash flow hedges. The mark-to-market gains or losses on qualifying hedges are deferred and included as a component of other comprehensive income to the extent effective, and reclassified to cost of products sold in the period during which the hedged transaction affects earnings. In order to qualify as a hedge of commodity price risk, it must be demonstrated that the changes in the fair value of the commodity $s$ futures contracts are highly effective in hedging price risks associated with the commodity purchased. Hedge effectiveness is measured at inception and on a monthly basis. The mark-to-market gains or losses on nonqualifying, excluded, and ineffective portions of hedges are recognized in cost of products sold immediately.
Foreign Currency Exchange Rate Hedging. The Company utilizes foreign currency forwards and options contracts to manage the effect of foreign currency exchange fluctuations on future cash payments primarily related to purchases of certain raw materials, finished goods, and fixed assets. The contracts generally have maturities of less than one year. At the inception of the contract, the derivative is evaluated and documented for ASC 815 accounting treatment. If the contract qualifies for hedge accounting treatment, to the extent the hedge is deemed effective, the associated mark-to-market gains and losses are deferred and included as a component of other comprehensive income. These gains or losses are reclassified to earnings in the period the contract is executed. The ineffective portion of these contracts is immediately recognized in earnings. Instruments currently used to manage foreign currency exchange exposures do not meet the requirements for hedge accounting treatment and the change in value of these instruments is immediately recognized in cost of products sold.
As of January 31, 2010, the Company had the following outstanding derivative contracts:

|  | Gross Contract |
| ---: | ---: |
| Notional |  |
| Amount |  |
| Commodity contracts | $\$ 10,671$ |
| Foreign currency exchange contracts | 47,800 |

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The following table sets forth the fair value of derivative instruments recognized in the Condensed Consolidated Balance Sheet at January 31, 2010.

|  | Other Current Assets |  |  | Other <br> Current Liabilities |
| :---: | :---: | :---: | :---: | :---: |
| Derivatives designated as hedging instruments: |  |  |  |  |
| Commodity contracts | \$ | 268 | \$ | 787 |
| Derivatives not designated as hedging instruments: |  |  |  |  |
| Commodity contracts | \$ | 2,089 | \$ | 2,532 |
| Foreign currency exchange contracts |  |  |  | 585 |
| Total | \$ | 2,089 | \$ | 3,117 |
| Total derivatives | \$ | 2,357 | \$ | 3,904 |

The Company has elected to not offset fair value amounts recognized for derivative instruments and its cash margin accounts executed with the same counterparty. The Company maintained cash margin accounts of $\$ 9,620$ and $\$ 16,619$ at January 31, 2010 and April 30, 2009, respectively, that are included in other current assets in the Condensed Consolidated Balance Sheets.
The following table presents information on gains and losses recognized on derivatives designated as cash flow hedging relationships, all of which hedge commodity price risk.
Three Months

Ended $\quad$| Nine Months |
| ---: |
| Ended |

Included as a component in accumulated other comprehensive loss at January 31, 2010 and April 30, 2009, were deferred losses of $\$ 555$ and deferred gains of $\$ 1,570$, respectively. The related tax impact recognized in accumulated other comprehensive loss was $\$ 904$ and $\$ 1,239$ for the three months and nine months ended January 31,2010 , respectively. The entire amount of the deferred loss included in accumulated other comprehensive loss at January 31, 2010 , is expected to be recognized in earnings within one year as the related commodity is utilized.
The following table presents the gains and losses recognized in cost of products sold on derivatives not designated as qualified hedging instruments.

| Three Months | Nine Months |
| ---: | ---: |
| Ended | Ended |
| January 31,2010 | January 31,2010 |


| Gain (loss) on commodity contracts | $\$$ | 12 | $\$$ |
| :--- | :--- | :---: | :---: |
| Loss on foreign currency exchange contracts | $\$$ | $(156)$ | $(2,818)$ |

Note N Other Financial Instruments and Fair Value Measurements
Financial instruments, other than derivatives, that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments, marketable securities, and trade receivables. The Company s marketable securities were in debt securities. Under the Company s investment policy, it may invest in securities deemed to be investment grade at the time of purchase. Although, these investments are currently defined as mortgage-backed obligations, corporate bonds, municipal bonds, federal agency notes,

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and commercial paper, the Company has limited recent investments primarily to high-quality money market funds considered to be cash equivalents. The Company determines the appropriate categorization of any debt securities at the time of purchase and reevaluates such designation at each balance sheet date.
The fair value of the Company s financial instruments, other than certain of its fixed-rate long-term debt, approximates their carrying amounts. The following table provides information on the carrying amount and fair value of financial instruments, including derivative financial instruments.

| Marketable securities | $\$$ | $\$$ |  | $\$ 12,813$ | $\$ 2,813$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Other investments and securities | 34,764 |  | 34,764 | 29,273 | 29,273 |
| Derivative financial instruments net (liabilities) |  |  |  |  |  |
| assets | $(1,547)$ |  | $(1,547)$ | 24 | 24 |
| Fixed-rate long-term debt | 910,000 | $1,180,803$ | $1,186,726$ | $1,234,728$ |  |

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company s market assumptions. The fair value hierarchy consists of three levels to prioritize the inputs used in valuations, as defined below:
Level 1 Inputs Quoted prices for identical instruments in active markets.
Level 2 Inputs Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3 Inputs Instruments with primarily unobservable value drivers.

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The following table is a summary of the Company s financial assets (liabilities) measured at fair value on a recurring basis.

|  |  |  | Fair Value at <br> January 31, | Fair Value at <br> April 30, |
| :--- | :---: | :---: | ---: | ---: | ---: | ---: | ---: |
|  | Level 1 | Level 2 |  | 3009 |

(A) The Company s marketable securities were entirely in mortgage-backed securities and were sold during the quarter ended October 31, 2009. The securities were broker-priced, and valued by a third party using an evaluated pricing methodology. An evaluated pricing methodology is a valuation technique which uses inputs that are derived principally from or corroborated by observable market data.
(B) The Company maintains funds for the payment of benefits associated with nonqualified retirement plans.

These funds consist of equity securities listed in active markets and municipal bonds. The municipal bonds are valued by a third party using an evaluated pricing methodology.
(C) The Company s
derivatives are
valued using quoted market
prices. For
additional
information, see
Note M
Derivative
Financial
Instruments.
During the three months ended January 31, 2010, the Company recognized fair value adjustments of $\$ 9,807$ related to the impairment of the Europe s Best ${ }^{\circledR}$ indefinite-lived trademark and other finite-lived intangible assets. Other adjustments of $\$ 1,354$ related to foreign currency exchange and amortization were recognized during the nine-month period ended January 31, 2010. The following table presents these nonfinancial assets adjusted to fair value as of January 31, 2010.

|  | Carrying <br> Amount at | Fair <br> Value |  | Other |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | | Carrying |
| ---: |
| Amount at |
| January 31, |

## Impairment

Charges.
Note O Income Taxes
During the three-month period ended January 31, 2010, the Company s effective tax rate decreased to 31.3 percent, compared to 31.8 percent in the three-month period ended January 31, 2009, reflecting the impact of reduced effective rates in Canada. During the nine-month period ended January 31, 2010, the Company s effective tax rate increased to 33.7 percent, compared to 32.7 percent in the nine-month period ended January 31, 2009, reflecting the higher effective tax rate associated with the Folgers business. During the three-month and nine-month periods ended January 31,2010 , the effective income tax rate varied from the U.S. statutory income tax rate primarily due to state income taxes partially offset by the domestic manufacturing deduction, coupled with reduced effective tax rates in Canada.
Within the next twelve months, it is reasonably possible that the Company could decrease its unrecognized tax benefits by an additional $\$ 5,076$, primarily as a result of expiring statute of limitations periods.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
This discussion and analysis deals with comparisons of material changes in the unaudited condensed consolidated financial statements for the three-month and nine-month periods ended January 31, 2010 and 2009. Results for the three-month and nine-month periods ended January 31, 2010 and 2009, include the operations of The Folgers Coffee Company ( Folgers ) from the close of the transaction on November 6, 2008.
The Company is the owner of all trademarks, except Pillsbury ${ }^{\circledR}$ is a trademark of The Pillsbury Company LLC, used under license; and Dunkin Donuts ${ }^{\circledR}$ is a registered trademark of DD IP Holder LLC, used under license.

## Net Sales

Three Months Ended January

| 31, |  | Nine Months Ended January 31, |  |  |
| ---: | ---: | :---: | :---: | :---: |
| Increase |  |  | Increase |  |
| 2010 | 2009 (Decrease) | $\%$ | 2010 | 2009 (Decrease) | (Dollars in millions)


| Net sales | $\$ 1,205.9$ | $\$ 1,182.6$ | $\$$ | 23.3 | $2 \%$ | $\$ 3,536.2$ | $\$ 2,689.4$ | $\$$ | 846.8 | $31 \%$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Adjust for noncomparable <br> items: |  |  |  |  |  |  |  |  |  |  |
| Acquisitions | $(31.8)$ |  | $(31.8)$ | $(3 \%)$ | $(920.9)$ |  | $(920.9)$ | $(34 \%)$ |  |  |
| Foreign exchange | $(14.2)$ |  | $(14.2)$ | $(1 \%)$ | $(6.5)$ |  | $(6.5)$ | $(0 \%)$ |  |  |
| Net sales without <br> acquisitions and foreign <br> exchange |  |  |  |  |  |  |  |  |  |  |

Net sales were $\$ 1,205.9$ million in the third quarter of 2010, an increase of $\$ 23.3$ million, or two percent, compared to the third quarter of 2009. An additional five days of Folgers net sales, totaling approximately $\$ 31.8$ million, were realized in the third quarter of 2010 as a result of the closing date of the merger during last year sthird quarter. In total, Folgers contributed $\$ 510.3$ million to net sales in the third quarter of 2010, compared to $\$ 468.5$ million in the third quarter of 2009. Excluding the additional Folgers business and the impact of foreign exchange, net sales were down two percent in the third quarter of 2010, compared to 2009.
Excluding the additional five days of Folgers sales, total volume increased four percent in the third quarter of 2010, compared to 2009, with gains across most of the Company s leading brands. The favorable impact of volume growth on net sales was more than offset by a six percent price and mix decline, attributable primarily to price reductions in the U.S. retail oils and baking segment, and an increase in promotional spending across several categories. In certain instances, the Company increased promotional spending in response to decreases in commodity costs, which may not be sustained, rather than taking a price list reduction.
Company net sales for the first nine months of 2010 were $\$ 3,536.2$ million, an increase of 31 percent, compared to $\$ 2,689.4$ million in the first nine months of 2009. Acquisitions contributed approximately $\$ 920.9$ million to 2010 net sales, with Folgers representing approximately $\$ 918.9$ million. Net sales, excluding acquisitions and foreign exchange, decreased three percent in the first nine months of 2010, compared to the same period in 2009, as the effect of price reductions offset volume gains of two percent during the period.

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## Operating Income

The following table presents components of operating income as a percentage of net sales.

|  | ThreeMonths Ended <br> January 31, <br> 2009 |  | Nine Months Ended <br> January 31, |
| :--- | :---: | ---: | ---: | ---: |
|  | 2010 | 2010 | 2009 |

Gross profit increased $\$ 57.3$ million to 38.0 percent of net sales in the third quarter of 2010, compared to 33.9 percent in the third quarter of 2009. Much of the improvement is attributable to Folgers, including the impact of lower green coffee costs and the extra five days of business. In addition, last year s gross margin was negatively impacted by an inventory adjustment reflecting the fair value of acquired inventories related to the merger. Gross margin for the third quarter of 2009 benefited from the partial reversal of mark-to-market charges related to nonqualifying commodity derivatives recognized in the second quarter of 2009. However, lower other raw material and freight costs across the businesses favorably impacted gross margin in the third quarter of 2010, compared to 2009.
Selling, distribution, and administrative ( SD\&A ) expenses increased one percent for the third quarter of 2010, compared to 2009 , but decreased slightly as a percentage of net sales. Marketing expense decreased approximately 14 percent in the third quarter of 2010, compared to 2009, primarily due to the higher concentration of marketing expense last year for Folgers in the third quarter, compared to the fourth quarter of last year.
Distribution expenses decreased eight percent for the third quarter of 2010, compared to 2009, reflecting the impact of synergies related to the addition of Folgers. General and administrative expenses increased 34 percent in the third quarter of 2010, compared to 2009. In addition, third quarter 2009 general and administrative expense did not include amounts to fully support the Folgers business, as the shared service structure necessary to support the combined businesses was not yet complete. As a result, the third quarter 2010 general and administrative expenses are higher, compared to the third quarter of 2009. In addition, the third quarter of 2010 includes increased pension and other employee benefit costs, compared to the third quarter of 2009, and partial recognition of expenses related to the pending closure of the Company s West Fargo, North Dakota, manufacturing facility in April 2010.
Amortization expense, a noncash item, was $\$ 18.6$ million in the third quarter of 2010 , primarily reflecting the impact of intangible assets associated with the Folgers transaction. Noncash impairment charges of $\$ 9.8$ million were recognized in the third quarter of 2010 resulting from the write-down to estimated fair value of certain of the Company s intangible assets, primarily the Europe s Be ${ }^{9}$ trademark in Canada. Approximately $\$ 27.2$ million of intangible assets related to the Europe s Best ${ }^{\circledR}$ business remain after the impairment charge.

Driven by gross profit improvements, operating income increased 55 percent in the third quarter of 2010, compared to 2009, and improved from 11.5 percent to 17.4 percent of net sales.
For the first nine months of 2010, gross profit increased $\$ 504.3$ million, compared to the same period in 2009, and increased from 31.7 percent of net sales in 2009 to 38.4 percent in 2010 . The majority of the gross profit

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increase resulted from the additional Folgers business. For the first nine months of 2010, SD\&A increased 32 percent, compared to 2009, and was unchanged as a percentage of net sales at 18.3 percent in both years.
Operating income increased $\$ 315.6$ million during the first nine months of 2010 , compared to the same period in 2009, and increased from 10.9 percent of net sales in 2009 to 17.2 percent in 2010. The operating margin improvement in 2010 reflects the increase in gross margin and lower merger and integration costs, offset by the impact of higher amortization expense and impairment charges in 2010, compared to 2009.
Other
Interest income decreased $\$ 1.5$ million and $\$ 2.7$ million during both the third quarter and first nine months of 2010, compared to 2009, respectively, due to a lower overall weighted-average interest rate in both periods and a decrease in the average invested balance in the third quarter of 2010, compared to 2009.
Interest expense decreased $\$ 7.7$ million during the third quarter of 2010, compared to 2009, resulting from a decrease in borrowings outstanding during the quarter as scheduled debt repayments of $\$ 75.0$ million and $\$ 550.0$ million were made in June and November 2009, respectively. However, interest expense increased $\$ 6.6$ million during the first nine months of 2010, compared to 2009, reflecting increases in the Company s debt obligations associated with the Folgers transaction, prior to the repayments.
Income tax expense increased $\$ 25.3$ million and $\$ 106.5$ million during the third quarter and first nine months of 2010, compared to 2009, respectively. The effective tax rate decreased to 31.3 percent in the third quarter of 2010, compared to 31.8 percent in 2009, reflecting the impact of reduced effective rates in Canada. However, the effective tax rate increased for the first nine months to 33.7 percent in 2010 from 32.7 percent in 2009, reflecting the higher effective tax rate associated with the Folgers business.

## Segment Results

Three Months Ended January 31,

## \%

Increase
(Decrease) (Dollars in millions)

Net sales:

| U.S. retail coffee market | $\$ 471.5$ | $\$ 432.0$ | $9 \%$ | $\$ 1,282.8$ | $\$ 432.0$ | $197 \%$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| U.S. retail consumer <br> market | 273.8 | 270.5 | $1 \%$ | 854.9 | 846.1 | $1 \%$ |
| U.S. retail oils and baking <br> market | 244.2 | 278.8 | $(12 \%)$ | 742.5 | 810.2 | $(8 \%)$ |
| Special markets | 216.5 | 201.3 | $8 \%$ | 656.0 | 601.0 | $9 \%$ |
| Segment profit: |  |  |  |  |  |  |
| U.S. retail coffee market | $\$ 148.6$ | $\$ 91.9$ | $62 \%$ | $\$$ | 424.4 | $\$ 81.9$ |

U.S. retail oils and baking market
$\begin{array}{lllll}\text { Special markets } & 17.8 \% & 12.6 \% & 16.5 \% & 12.1 \%\end{array}$
Segment performance for the three-month and nine-month periods ended January 31, 2009, has been reclassified to include Canadian Folgers results in the special markets segment, rather than in the U.S. retail coffee market segment, consistent with 2010 presentations.

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## U.S. Retail Coffee Market

The U.S. retail coffee market segment net sales increased nine percent in the third quarter of 2010, including the additional five days of sales totaling approximately $\$ 29.2$ million, compared to the third quarter of 2009 . Volume increased approximately four percent, compared to the same full three-month period last year, which included the five-day period prior to the merger. The Folgers ${ }^{\circledR}$ brand contributed the majority of the volume increase, compared to last year, while the continued growth of Dunkin Donuts ${ }^{\circledR}$ coffee in the gourmet category also contributed double-digit growth.
The U.S. retail coffee market segment profit increased 62 percent to $\$ 148.6$ million in the third quarter of 2010, compared to 2009, and improved to 31.5 percent of net sales from 21.3 percent in 2009. Last year s coffee segment margins included unfavorable merger-related inventory valuation adjustments and higher marketing and promotional expense recognition. The current quarter margin was favorably impacted by lower green coffee costs.
For the first nine months of 2010, the U.S. retail coffee market segment contributed $\$ 1,282.8$ million to net sales. Compared to the same nine-month period last year, including the period prior to the transaction, volume increased approximately five percent. Again, strong growth in the Folgers ${ }^{\circledR}$ brand contributed over three-quarters of the volume increase, compared to last year, and continued growth of Dunkin Donuts ${ }^{\circledR}$ coffee in the gourmet category contributed the remainder.
For the first nine months of 2010 , the U.S. retail coffee market segment contributed $\$ 424.4$ million in segment profit representing a 33.1 percent margin.

## U.S. Retail Consumer Market

U.S. retail consumer market segment net sales for the third quarter of 2010 increased one percent, compared to the third quarter of 2009. Total volume in the U.S. retail consumer market increased four percent, compared to the third quarter last year, with gains in Hungry Jack ${ }^{\circledR}$ pancake mixes and syrups, Jif ${ }^{\circledR}$ peanut butter, and Smucker $s^{\circledR}$ fruit spreads. Volume gains were mostly offset by increases in promotional spending, sales mix, and price declines on selected items.
The U.S. retail consumer market segment profit increased six percent for the third quarter of 2010, compared to the same period in 2009, mainly due to lower raw material and freight costs offset by a 14 percent increase in marketing expense. Segment profit margin improved from 23.2 percent in the third quarter of 2009 to 24.3 percent in 2010. For the first nine months of 2010 , the U.S. retail consumer market segment net sales increased one percent, compared to the first nine months of 2009 , as volume gains of four percent were reduced by sales mix. Segment profit increased seven percent for the first nine months of 2010, compared to 2009, and improved to 23.9 percent in 2010 from 22.5 percent of net sales in 2009.
U.S. Retail Oils and Baking Market

Total volume in the U.S. retail oils and baking market segment was up three percent in the third quarter of 2010, compared to 2009, with gains in the Pillsbury ${ }^{\circledR}$ and Crisco ${ }^{\circledR}$ brands offset by modest declines in canned milk. Net sales in the U.S. retail oils and baking market were down 12 percent for the third quarter of 2010, compared to 2009, reflecting the full impact of price declines taken during last year sthird quarter and increased promotional spending across the segment.
The U.S. retail oils and baking market segment profit decreased 17 percent for the third quarter of 2010, compared to the same period in 2009, resulting in a segment profit margin of 16.1 percent, compared to 17.0 percent in 2009. Last year s third quarter benefited from the favorable impact of a partial reversal of unrealized mark-to-market adjustments on commodity instruments, previously recognized in the second quarter. A less

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favorable product mix, reflecting a higher proportion of flour sales, and a higher portion of sales sold on promotion reduced segment margin in the third quarter of 2010, compared to 2009.
For the first nine months of 2010, the U.S. retail oils and baking market segment net sales decreased eight percent, compared to the first nine months of 2009 , reflecting the impact of pricing and increased promotional spending, as volume increased four percent. Segment profit increased nine percent for the first nine months of 2010, compared to 2009, and improved from 13.1 percent of net sales in 2009 to 15.6 percent in 2010.

## Special Markets

Net sales in the special markets segment increased eight percent, in the third quarter of 2010, compared to 2009, due to a favorable exchange rate impact of $\$ 14.2$ million and an additional five days of Folgers sales totaling approximately $\$ 2.6$ million. Net sales, excluding acquisitions and foreign exchange, decreased one percent in the third quarter of 2010, compared to 2009.
Volume increased six percent in the third quarter of 2010, compared to 2009. Gains in Canada s baking and spreads categories, coffee in the foodservice and export businesses, and the natural foods business were offset somewhat by declines in foodservice portion control. The impact of volume growth was more than offset by mix and increases in promotional spending.
Special markets segment profit increased 53 percent for the third quarter of 2010, compared to 2009, primarily due to lower raw material costs and the impact of increased coffee sales. Profit margin for the quarter improved from 12.6 percent in the third quarter of 2009 to 17.8 percent in 2010.

For the first nine months of 2010, special markets segment net sales increased nine percent, compared to the first nine months of 2009, including the contribution from Folgers. Excluding the impact of acquisition and foreign exchange, special market net sales decreased five percent in the first nine months of 2010, compared to 2009.
Special markets segment volume, excluding the impact of acquisitions, was flat in the first nine months of 2010, compared to 2009, as coffee gains in foodservice and export businesses offset declines in the natural foods business and foodservice portion control. Segment profit increased 49 percent for the first nine months of 2010, compared to 2009, and profit margin improved to 16.5 percent in 2010 from 12.1 percent in 2009.

## Financial Condition Liquidity and Capital Resources

Liquidity

|  | Nine Months Ended January |  |
| :--- | ---: | :---: |
| (Dollars in thousands) | 31, |  |
|  | 2010 | 2009 |
| Net cash provided by operating activities | 508,686 | $\$$ |
| Net cash used for investing activities | $(97,077)$ | $(146,285)$ |
| Net cash (used for) provided by financing activities | $(746,984)$ | 50,321 |

On an annual basis, the Company s principal source of funds is cash generated from operations, supplemented by borrowings against the Company s revolving credit facilities. Total cash and cash equivalents at January 31, 2010, were $\$ 125.6$ million compared to $\$ 456.7$ million at April 30, 2009.
Cash provided by operations in the first nine months of 2010 was $\$ 508.7$ million, an increase of $\$ 219.7$ million, compared to $\$ 289.0$ million in 2009 , resulting primarily from the additional Folgers business. The Company used significant cash during the first half of 2010 for seasonal fruit and vegetable procurement, the buildup of inventories to support the Fall Bake and Holiday period, and the additional increase of coffee inventory in advance of the Atlantic hurricane season. Increased cash provided by operations is generated in the second

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half of the year, compared to the first half of the year, upon completion of the Company s key promotional periods. Cash used for investing activities was approximately $\$ 97.1$ million in the first nine months of 2010, consisting primarily of capital expenditures, compared to cash used for investing of approximately $\$ 146.3$ million in 2009, including the use of approximately $\$ 72.1$ million for acquisitions, primarily the Knott s Berry Farm ${ }^{\circledR}$ business and Folgers.
Cash used for financing activities during the first nine months of 2010 was approximately $\$ 747.0$ million, consisting primarily of the repayments of $\$ 275.0$ million and $\$ 350.0$ million of long-term debt and bank notes payable, respectively, and quarterly dividend payments of $\$ 124.6$ million. Cash provided by financing activities during the first nine months of 2009 consisted primarily of the proceeds from the Company s $\$ 400.0$ million Senior Note placement. A portion of the proceeds was used to fund the payment of a $\$ 5.00$ per share one-time special dividend, totaling approximately $\$ 274.2$ million, on October 31, 2008. In addition, quarterly dividend payments of approximately $\$ 72.8$ million were made in the first nine months of 2009.
Capital Resources
The following table presents the Company s capital structure:

| Note payable | (Dollars in thousands |  |  |
| :--- | ---: | ---: | ---: |
| Current portion of long-term debt |  | $\$ 0,000$ | 350,000 |
| Long-term debt |  | 276,726 |  |
|  | 900,000 |  | 910,000 |
| Total debt | $\$ 910,000$ | $\$$ | $1,536,726$ |
| Shareholders equity | $5,240,244$ | $4,939,931$ |  |
| Total capital | $\$ 6,150,244$ | $\$$ | $6,476,657$ |

In addition to borrowings outstanding, the Company has available a $\$ 180.0$ million revolving credit facility with a group of three banks that expires in 2011 and a $\$ 400.0$ million, three-year, revolving credit facility with a group of five banks that expires in 2012. No amounts were outstanding against revolving credit facilities at January 31, 2010. During the first nine months of 2010, the Company repaid $\$ 350.0$ million of Folgers bank debt and $\$ 275.0$ million of Senior Notes utilizing a combination of cash on hand and borrowings against the $\$ 180.0$ million credit facility. The Company subsequently paid off the borrowings against the credit facility and no amounts were outstanding on the facility at January 31, 2010.
Absent any material acquisitions or other significant investments, the Company believes that cash on hand, combined with cash provided by operations and borrowings available under credit facilities will be sufficient to meet cash requirements for the next twelve months, including capital expenditures, the payment of quarterly dividends, and principal and interest on debt outstanding.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.
The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates, and commodity prices.
Interest Rate Risk. The fair value of the Company s cash and short-term investment portfolio at January 31, 2010, approximates carrying value. Exposure to interest rate risk on the Company s long-term debt is mitigated since it is at a fixed rate until maturity. Based on the Company s overall interest rate exposure as of and during the three-month and nine-month periods ended January 31, 2010, including derivative and other instruments sensitive to interest rates, a hypothetical 10 percent movement in interest rates would not materially affect the Company s results of operations. Interest rate risk can also be measured by estimating the net amount by which the fair value of the Company sfinancial liabilities would change as a result of movements in interest rates. Based on a hypothetical one-percentage point decrease in interest rates at January 31, 2010, the fair value of the Company s long-term debt would increase by approximately $\$ 49.8$ million.
Foreign Currency Exchange Risk. The Company has operations outside the U.S. with foreign currency denominated assets and liabilities, primarily denominated in Canadian currency. Because the Company has foreign currency denominated assets and liabilities, financial exposure may result, primarily from the timing of transactions and the movement of exchange rates. The foreign currency balance sheet exposures as of January 31, 2010, are not expected to result in a significant impact on future earnings or cash flows.
Revenues from customers outside the U.S. represented approximately 10 percent and nine percent of net sales during the three-month and nine-month periods ended January 31, 2010, respectively. Thus, certain revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations and these fluctuations may have an impact on operating results.
Commodity Price Risk. Raw materials and other commodities used by the Company are subject to price volatility caused by supply and demand conditions, political and economic variables, weather, and other unpredictable factors. To manage the volatility related to anticipated commodity purchases, the Company uses futures and options with maturities generally less than one year. Certain of these instruments are designated as cash flow hedges. The mark-to-market gains or losses on qualifying hedges are included in other comprehensive income to the extent effective, and reclassified into cost of products sold in the period during which the hedged transaction affects earnings. The mark-to-market gains or losses on nonqualifying, excluded, and ineffective portions of hedges are recognized in cost of products sold immediately.
The following sensitivity analysis presents the Company s potential loss of fair value resulting from a hypothetical 10 percent change in market prices.

|  | January 31, | April 30, |  |
| :--- | ---: | ---: | ---: |
| (Dollars in thousands) | 2010 | 2009 |  |
| Raw material commodities: |  |  |  |
| High | $\$$ | 20,684 | $\$$ |
| Low | 2,125 | 16,374 |  |
| Average | 12,099 | 3,949 |  |

Fair value was determined using quoted market prices and was based on the Company s net derivative position by commodity for the previous four quarters. The calculations are not intended to represent actual losses in fair value that the Company expects to incur. In practice, as markets move, the Company actively manages its risk and adjusts hedging, derivative, and purchasing strategies as appropriate. The commodities hedged have a high inverse correlation to price changes of the derivative commodity instrument; thus, the Company would expect that any gain or loss in the fair value of its derivatives would generally be offset by an increase or decrease in the fair value of the underlying exposures.

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## Certain Forward-Looking Statements

Certain statements included in this quarterly report contain forward-looking statements within the meaning of federal securities laws. The forward-looking statements may include statements concerning the Company s current expectations, estimates, assumptions, and beliefs concerning future events, conditions, plans, and strategies that are not historical fact. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, plans, and similar phrases. Federal securities laws provide a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is providing this cautionary statement in connection with the safe harbor provisions. Readers are cautioned not to place undue reliance on any forward-looking statements as such statements are by nature subject to risks, uncertainties, and other factors, many of which are outside of the Company s control and could cause actual results to differ materially from such statements and from the Company s historical results and experience. These risks and uncertainties include, but are not limited to those set forth under the caption Risk Factors in the Company s Annual Report on Form $10-\mathrm{K}$, as well as the following:
volatility of commodity markets from which raw materials, particularly green coffee beans, wheat, soybean oil, milk, and peanuts are procured and the related impact on costs;
risks associated with hedging, derivative, and purchasing strategies employed by the Company to manage commodity pricing risks, including the risk that such strategies could result in significant losses and adversely impact the Company s liquidity;
crude oil price trends and their impact on transportation, energy, and packaging costs;
the ability to successfully implement price changes;
the success and cost of introducing new products and the competitive response;
the success and cost of marketing and sales programs and strategies intended to promote growth in the Company s businesses;
general competitive activity in the market, including competitors pricing practices and promotional spending levels;
the impact of food safety concerns involving either the Company or its competitors products;
the impact of natural disasters, including crop failures and storm damage;
the concentration of certain of the Company s businesses with key customers and suppliers and the ability to manage and maintain key relationships;
the loss of significant customers or a substantial reduction in orders from these customers or the bankruptcy of any such customer;
changes in consumer coffee preferences, and other factors affecting the coffee business, which represents a substantial portion of the Company $s$ business;
the ability of the Company to obtain any required financing;
the timing and amount of the Company s capital expenditures and merger and integration costs;
impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets or changes in useful lives of other intangible assets;
the outcome of current and future tax examinations, changes in tax laws and other tax matters, and their related impact on the Company stax positions;
foreign currency and interest rate fluctuations;
political or economic disruption;
other factors affecting share prices and capital markets generally; and
the other factors described under Risk Factors in registration statements filed by the Company with the Securities and Exchange Commission and in the other reports and statements filed by the Company with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K and proxy materials.

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Readers are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this quarterly report. The Company does not assume any obligation to update or revise these forward-looking statements to reflect new events or circumstances.
Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures. The Company s management, including the Company s principal executive officers and principal financial officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 as amended (the Exchange Act )) as of January 31, 2010 (the Evaluation Date ). Based on that evaluation, the Company s principal executive officers and principal financial officer have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to the Company s management, including the chief executive officers and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls. There were no changes in the Company sinternal control over financial reporting that occurred during the quarter ended January 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II. OTHER INFORMATION

Item 1A. Risk Factors.
The Company s business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended April 30, 2009, should be carefully considered, together with the other information contained or incorporated by reference in the Quarterly Report on Form 10-Q and in the Company s other filings with the SEC in connection with evaluating the Company, its business, and the forward-looking statements contained in this Report. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial also may affect the Company. The occurrence of any of these known or unknown risks could have a material adverse impact on the Company s business, financial condition, and results of operations.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
(a) Not applicable.
(b) Not applicable.
(c) Issuer Purchases of Equity Securities

| (a) | (b) | (c) | (d) <br> Maximum <br> Number (or |
| :--- | :---: | :---: | :---: | ---: |
| Approximate |  |  |  |
| Dollar |  |  |  |

Information set forth in the table above represents activity in the Company sthird fiscal quarter.
(a) Shares in this column include shares repurchased as part of publicly announced plans as well as shares repurchased from stock plan recipients in lieu of cash payments.
(d) Since August 2004, the Company s Board of Directors has authorized management to repurchase up to 10 million common shares. Share repurchases will occur at management s discretion with no established expiration date. The Company has repurchased a total of $6,255,778$ common shares since November 2004 under the buyback program authorized by the Company s Board of Directors. At January 31, 2010, 3,744,222 common shares remain available for repurchase under this program. Under the transaction agreement relating to the Folgers transaction and related ancillary agreements, the Company may repurchase common shares only under specific conditions. As a result, the Company does not anticipate that it will repurchase shares for a period of at least two years following the closing of the merger on November 6, 2008.
Item 6. Exhibits.
See the Index of Exhibits that appears on Page No. 27 of this report.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

March 11, 2010
THE J. M. SMUCKER COMPANY
/s/ Timothy P. Smucker
BY TIMOTHY P. SMUCKER
Chairman of the Board and Co-Chief Executive Officer
/s/ Richard K. Smucker
BY RICHARD K. SMUCKER
Executive Chairman and Co-Chief Executive Officer
/s/ Mark R. Belgya
BY MARK R. BELGYA
Senior Vice President and Chief Financial Officer

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## INDEX OF EXHIBITS

Assigned
Exhibit
No. *
Description
31.1 Certification of Timothy P. Smucker pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act
31.2 Certification of Richard K. Smucker pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act
31.3 Certification of Mark R. Belgya pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

* Exhibits 2, 3, $10,11,15,18$, $19,22,23,24$, and 99 are either inapplicable to the Company or require no answer.

