SMUCKER J M CO
Form 10-Q
March 11, 2008

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

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

For the quarterly period ended January 31, 2008

or

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

For the transition period from __________ to __________

Commission file number 1-5111

THE J. M. SMUCKER COMPANY

(Exact name of registrant as specified in its charter)

Ohio	34-0538550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Strawberry Lane Orrville, Ohio	44667-0280
(Address of principal executive offices)	(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 þ 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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 þ

The Company had 55,587,702 common shares outstanding on February 29, 2008.

The Exhibit Index is located at Page No. 24.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(UNAUDITED)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2008	2007	2008	2007
	(Dollars in thousands, except per share data)			
Net sales	$ 665,373	$ 523,081	$ 1,934,776	$ 1,654,545
Cost of products sold	469,658	349,425	1,334,589	1,122,412
Cost of products sold restructuring	262	689	262	9,981
Gross Profit	195,453	172,967	599,925	522,152
Selling, distribution, and administrative expenses	122,907	108,789	371,018	333,274
Other restructuring costs (credits)	705	(199)	1,606	1,337
Merger and integration costs	2,900		5,884	
Operating Income	68,941	64,377	221,417	187,541
Interest income	3,694	2,629	11,015	6,625
Interest expense	(10,725)	(5,656)	(31,735)	(17,681)
Other income (expense) net	250	(902)	1,162	(1,210)
Income Before Income Taxes	62,160	60,448	201,859	175,275
Income taxes	19,759	20,021	68,531	60,555
Net Income	$ 42,401	$ 40,427	$ 133,328	$ 114,720
Earnings per common share:				
Net Income	$ 0.75	$ 0.72	$ 2.35	$ 2.03
Net Income Assuming Dilution	$ 0.75	$ 0.71	$ 2.33	$ 2.01
Dividends declared per common share	$ 0.30	$ 0.28	$ 0.90	$ 0.84

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2008	April 30, 2007
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 327,664	$ 200,119
Trade receivables, less allowances	141,215	124,048
Inventories:		
Finished products	238,132	196,177
Raw materials	110,145	89,875
	348,277	286,052
Other current assets	37,161	29,147
Total Current Assets	854,317	639,366
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	45,200	41,456
Buildings and fixtures	189,294	176,950
Machinery and equipment	575,812	536,825
Construction in progress	44,690	25,284
	854,996	780,515
Accumulated depreciation	(365,548)	(326,487)
Total Property, Plant, and Equipment	489,448	454,028
OTHER NONCURRENT ASSETS		
Goodwill	1,110,341	990,771
Other intangible assets, net	592,812	478,194
Marketable securities	17,202	44,117
Other assets	98,133	87,347
Total Other Noncurrent Assets	1,818,488	1,600,429
	$ 3,162,253	$ 2,693,823
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 114,634	$ 93,500
Current portion of long-term debt		33,000
Other current liabilities	129,289	109,968
Total Current Liabilities	243,923	236,468
NONCURRENT LIABILITIES		
Long-term debt	790,424	392,643

Deferred income taxes	158,943	158,418
Other noncurrent liabilities	118,359	110,637
Total Noncurrent Liabilities	1,067,726	661,698
SHAREHOLDERS EQUITY		
Common shares	13,975	14,195
Additional capital	1,207,503	1,216,091
Retained income	585,698	553,631
Less:		
Amount due from ESOP	(5,479)	(6,017)
Accumulated other comprehensive income	48,907	17,757
Total Shareholders Equity	1,850,604	1,795,657
	$ 3,162,253	$ 2,693,823

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 January 31,	
	2008	2007
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 133,328	$ 114,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,528	42,387
Amortization	2,940	1,186
Asset impairments and other restructuring charges	262	10,089
Share-based compensation expense	8,692	8,282
Change in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(6,205)	29,668
Inventories	(15,176)	(1,864)
Accounts payable and accrued items	25,096	(8,040)
Other adjustments	(14,043)	15,614
Net cash provided by operating activities	178,422	212,042
INVESTING ACTIVITIES		
Businesses acquired, net of cash acquired	(166,963)	(60,488)
Proceeds from sale of business	3,407	84,054
Additions to property, plant, and equipment	(53,562)	(42,903)
Purchases of marketable securities	(229,405)	(20,000)
Sales and maturities of marketable securities	256,861	23,195
Disposals of property, plant, and equipment	1,766	882
Other net	(793)	(1,826)
Net cash used for investing activities	(188,689)	(17,086)
FINANCING ACTIVITIES		
Proceeds from long-term debt	400,000	
Repayments of long-term debt	(148,000)	
Revolving credit arrangements net		(28,310)
Dividends paid	(51,478)	(47,820)
Purchase of treasury shares	(86,300)	(51,943)
Proceeds from stock option exercises	16,680	16,363
Other net	2,009	292
Net cash provided by (used for) financing activities	132,911	(111,418)
Effect of exchange rate changes	4,901	(3,326)
Net increase in cash and cash equivalents	127,545	80,212
Cash and cash equivalents at beginning of period	200,119	71,956

Cash and cash equivalents at end of period	$ 327,664	$ 152,168

( ) Denotes use of cash

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
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. Operating results for the nine-month period ended January 31, 2008, are not necessarily indicative of the results that may be expected for the year ending April 30, 2008. 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, 2007.

Note B Eagle Acquisition

On May 1, 2007, the Company completed its acquisition of Eagle Family Foods Holdings, Inc. (Eagle), a privately held company headquartered in Columbus, Ohio, for $133 million in cash and the assumption of $115 million in debt, in a transaction valued at approximately $248 million. Results for the three-month and nine-month periods ended January 31, 2008, include the operations of Eagle since the acquisition closing date. Eagle is the largest producer of canned milk in North America, with sales primarily in retail and foodservice channels. Eagle generated net sales of approximately $206 million during its fiscal year ended July 1, 2006. The acquisition expands the Company s position in the baking aisle and complements the Company s strategy, which is to own and market leading North American food brands sold in the center of the store. Eagle s primary brands include *Eagle Brand* and *Magnolia* sweetened condensed milk.

The Company utilized cash on-hand and borrowings against its revolving credit facility to fund the cash portion of the purchase price and to deposit funds in escrow in exchange for a covenant defeasance on Eagle s $115 million Senior Notes that were assumed as of the acquisition date. On May 31, 2007, the escrow was distributed to note holders in full payment of the Senior Notes.

The purchase price will be allocated to the underlying assets acquired and liabilities assumed based upon their fair values at the date of acquisition. The Company will determine the estimated fair values based on independent appraisals, discounted cash flows, quoted market prices, and estimates made by management. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess will be allocated to goodwill.

The initial estimated fair value of the net assets acquired is approximately $248 million, which consists of current assets of $49 million; property, plant, and equipment of $20 million; other intangible assets, primarily customer relationships and trademarks, of $100 million; goodwill of $100 million; noncurrent assets of $1 million; and current liabilities of $22 million. The allocation of the purchase price is preliminary and subject to adjustment following completion of the valuation process. The Company expects the allocation of purchase price to be completed by April 30, 2008. Goodwill will be assigned to the U.S. retail market and special markets segments upon finalization of the allocation of the purchase price.

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Had the acquisition of Eagle occurred on May 1, 2006, unaudited, pro forma consolidated results would have been as follows:

	Three Months Ended January 31, 2007	Nine Months Ended January 31, 2007
Net sales	$ 586,000	$ 1,831,000
Operating income	$ 68,000	$ 202,000
Net income	$ 41,000	$ 119,000
Net income per common share assuming dilution	$ 0.72	$ 2.09

The unaudited, pro forma consolidated results are based on the Company s historical financial statements and those of the acquired business and do not necessarily indicate the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period presented, nor is it indicative of the results of operations in future periods.

Note C 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 shares, deferred stock units, performance units, performance shares, and stock options.

During the nine months ended January 31, 2008, the Company granted 11,390 deferred stock units and 188,500 restricted shares to employees, with 67,440 of these representing the conversion of performance shares and performance units into restricted shares, all with a grant date fair value of $57.73 and a total fair value of $11,540. Also during the nine months ended January 31, 2008, the Company granted performance units to certain executives. The performance units granted correspond to approximately 50,580 common shares with a grant date fair value of $57.73 and a total fair value of $2,920. During the nine months ended January 31, 2008, 7,840 deferred stock units were granted to nonemployee directors with a grant date fair value of $53.60 and a total fair value of $420. The grant date fair value of these awards was the average of the high and low stock price on the date of grant.

Compensation expense related to share-based awards was $2,719 and $2,596 for the three months ended January 31, 2008 and 2007, and $8,692 and $8,282 for the nine months ended January 31, 2008 and 2007, respectively. The related tax benefit recognized was $864 and $857 for the three months ended January 31, 2008 and 2007, and $2,951 and $2,861 for the nine months ended January 31, 2008 and 2007, respectively.

As of January 31, 2008, total compensation cost related to nonvested share-based awards not yet recognized was approximately $15,984. The weighted-average period over which this amount is expected to be recognized is approximately 3.0 years.

Note D Restructuring

In 2003, the Company announced its plan to restructure certain operations as part of its ongoing efforts to refine its portfolio, optimize its production capacity, improve productivity and operating efficiencies, and improve the Company s overall cost base as well as service levels in support of its long-term strategy. The Company s strategy is to own and market leading North American food brands sold in the center of the store.

To date, the Company closed its fruit processing operations at its Watsonville, California, and Woodburn, Oregon, locations and subsequently sold these facilities; completed the combination of its two manufacturing facilities in Ripon, Wisconsin, into one expanded site; completed a restructuring program to streamline operations in Europe and the United Kingdom, including the exit of a contract packaging arrangement and certain portions of its retail business; completed the sale of its U.S. industrial ingredient business; completed the realignment of distribution warehouses; sold the Salinas, California, facility after

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production was relocated to plants in Orrville, Ohio, and Memphis, Tennessee; and sold the Canadian nonbranded businesses, which were acquired as part of International Multifoods Corporation, to Horizon Milling G.P., a subsidiary of Cargill and CHS Inc., as part of a strategic plan to focus the Canadian operations on its branded consumer retail and foodservice businesses. The restructurings resulted in the reduction of approximately 410 full-time positions.

The Canadian nonbranded divestiture was completed on September 22, 2006. The sale and related restructuring activities are expected to result in total expense of approximately $18.6 million. Costs will include noncash, long-lived asset charges, as well as transaction, legal, severance, and pension costs. To date, charges of approximately $13.3 million were recognized related to the Canadian restructuring.

The Company expects to incur total restructuring costs of approximately $61 million related to these initiatives, of which $55.7 million has been incurred since the announcement of the initiatives in March 2003. The balance of the costs and remaining cash payments, estimated to be approximately $5.3 million and $5.7 million, respectively, are related to the Canadian restructuring and will primarily be incurred through 2009.

The following table summarizes the activity with respect to the restructuring and related long-lived asset charges recorded and reserves established and the total amount expected to be incurred.

	Employee Separation	Long-Lived Asset Charges	Equipment Relocation	Other Costs	Total
Total expected restructuring charge	$ 16,900	$ 19,400	$ 6,900	$ 17,800	$ 61,000
Balance at May 1, 2006	$ 1,694	$	$	$	$ 1,694
First quarter charge to expense	458	7,173	28	245	7,904
Second quarter charge to expense	(85)	2,119	5	885	2,924
Third quarter charge to expense	(43)			533	490
Fourth quarter charge to expense	27		34	722	783
Cash payments	(1,415)		(67)	(1,696)	(3,178)
Noncash utilization	(108)	(9,292)		(689)	(10,089)
Balance at April 30, 2007	$ 528	$	$	$	$ 528
First quarter charge to expense	53			260	313
Second quarter charge to expense				588	588
Third quarter charge to expense		262	64	641	967
Cash payments	(176)		(64)	(1,489)	(1,729)
Noncash utilization		(262)			(262)
Balance at January 31, 2008	$ 405	$	$	$	$ 405
Remaining expected restructuring charge	$ 400	$	$	$ 4,900	$ 5,300

Approximately $262 and $689 of the total net restructuring charges of $967 and $490 recorded in the three-months ended January 31, 2008 and 2007, respectively, and $262 and $9,981 of the total restructuring charges of $1,868 and $11,318 recorded in the nine-months ended January 31, 2008 and 2007, respectively, were reported in the cost of products sold in the accompanying Condensed Statements of Consolidated Income, while the remaining charges were reported in other restructuring costs. The restructuring costs included in cost of products sold include long-lived asset charges and inventory disposition costs. Expected employee separation costs are being recognized over the estimated future service period of the related employees. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets.

Long-lived asset charges include impairments and accelerated depreciation related to machinery and equipment that will be used at the affected production facilities until they close or are sold. Other costs include miscellaneous expenditures associated with the Company s restructuring initiative and are

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expensed as incurred. These costs include employee relocation, professional fees, and other closed facility costs.

Note E Common Shares

At January 31, 2008, 150,000,000 common shares were authorized. There were 55,901,752 and 56,779,850 shares outstanding at January 31, 2008, and April 30, 2007, respectively. Shares outstanding are shown net of 9,527,741 and 8,619,519 treasury shares at January 31, 2008, and April 30, 2007, respectively.

Note F Operating Segments

The Company operates in one industry: the manufacturing and marketing of food products. The Company has two reportable segments: U.S. retail market and special markets. The U.S. retail market segment includes the consumer and consumer oils and baking business areas. This segment primarily represents the domestic sales of *Smucker s, Jif, Crisco, Pillsbury, Eagle Brand, Hungry Jack, White Lily*, and *Martha White* branded products to retail customers. The special markets segment is comprised of the international, foodservice, beverage, and Canada strategic business areas. Special markets segment products are distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (i.e., restaurants, schools and universities, health care operations), and health and natural foods stores and distributors.

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The following table sets forth reportable segment information:

	Three Months Ended January 31, 2008	Three Months Ended January 31, 2007	Nine Months Ended January 31, 2008	Nine Months Ended January 31, 2007
Net sales:				
U.S. retail market	$502,174	$393,797	$1,455,553	$1,181,556
Special markets	163,199	129,284	479,223	472,989
Total net sales	$665,373	$523,081	$1,934,776	$1,654,545
Segment profit:				
U.S. retail market	$ 79,379	$ 77,751	$ 256,544	$ 236,796
Special markets	25,206	17,230	67,630	52,448
Total segment profit	$104,585	$ 94,981	$ 324,174	$ 289,244
Interest income	3,694	2,629	11,015	6,625
Interest expense	(10,725)	(5,656)	(31,735)	(17,681)
Amortization expense	(1,402)	(118)	(2,940)	(1,186)
Share-based compensation	(2,719)	(2,596)	(8,692)	(8,282)
Restructuring costs	(967)	(490)	(1,868)	(11,318)
Merger and integration costs	(2,900)		(5,884)	
Corporate administrative expenses	(28,050)	(27,184)	(83,430)	(80,742)
Other unallocated income (expense)	644	(1,118)	1,219	(1,385)
Income before income taxes	$ 62,160	$ 60,448	$ 201,859	$ 175,275

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

	January 31, 2008	April 30, 2007
6.77% Senior Notes due June 1, 2009	$ 75,000	$ 75,000
7.87% Series B Senior Notes due September 1, 2007		33,000
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
6.60% Senior Notes due November 13, 2009	205,424	207,643
5.55% Senior Notes due April 1, 2022	400,000	
Total long-term debt	$ 790,424	$ 425,643
Current portion of long-term debt		33,000
Total long-term debt less current portion	$ 790,424	$ 392,643

On May 31, 2007, the Company issued $400 million of 5.55 percent Senior Notes, due April 1, 2022, with required prepayments, the first of which is $50 million on April 1, 2013. Proceeds from this issuance were used to repay borrowings under the revolving credit facility used in financing the acquisition of Eagle. Additional proceeds will be used to finance other strategic and long-term initiatives as determined by the Company.

The notes are unsecured and interest is paid annually on the 6.60 percent Senior Notes and semiannually on the other notes. The 6.60 percent Senior Notes are guaranteed by Diageo plc. The guarantee may terminate, in limited circumstances, prior to the maturity of the notes. Among other restrictions, the note purchase agreements contain certain covenants relating to liens, consolidated net worth, and sale of assets as defined in the agreements. The Company is in compliance with all covenants.

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Note H Earnings per Share

The following table sets forth the computation of earnings per common share and earnings per common share assuming dilution:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2008	2007	2008	2007
Numerator:				
Net income	$ 42,401	$ 40,427	$ 133,328	$ 114,720
Denominator:				
Weighted-average shares	56,400,147	56,185,039	56,716,734	56,494,799
Effect of dilutive securities:				
Stock options	167,425	386,558	250,285	372,089
Restricted shares	255,693	216,003	239,719	193,330
Weighted-average shares assuming dilution	56,823,265	56,787,600	57,206,738	57,060,218
Net income per common share	$ 0.75	$ 0.72	$ 2.35	$ 2.03
Net income per common share assuming dilution	$ 0.75	$ 0.71	$ 2.33	$ 2.01

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Note I 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	
	2008	2007	2008	2007
Service cost	$ 1,739	$ 1,632	$ 323	$ 475
Interest cost	6,538	5,891	634	722
Expected return on plan assets	(8,940)	(7,993)		
Recognized net actuarial loss (gain)	254	403	(131)	(13)
Other	341	466	(113)	(51)
Net periodic benefit (credit) cost	$ (68)	$ 399	$ 713	$ 1,133