

SMUCKER J M CO
Form 10-Q
September 09, 2010

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

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

For the quarterly period ended July 31, 2010

or

**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

(State or other jurisdiction of incorporation or
organization)

34-0538550

(I.R.S. Employer Identification No.)

One Strawberry Lane

Orrville, Ohio

(Address of principal executive offices)

44667-0280

(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 No

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 No

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

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(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 No

The Company had 119,504,695 common shares outstanding on August 31, 2010.

The Exhibit Index is located at Page No. 29.

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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 July 31, | |
|--|---|--------------|
| | 2010 | 2009 |
| | (Dollars in thousands, except per share data) | |
| Net sales | \$ 1,047,312 | \$ 1,051,526 |
| Cost of products sold | 629,424 | 645,497 |
| Cost of products sold restructuring | 9,453 | |
| Gross Profit | 408,435 | 406,029 |
| Selling, distribution, and administrative expenses | 203,261 | 201,177 |
| Amortization | 18,497 | 18,377 |
| Merger and integration costs | 2,656 | 16,476 |
| Other restructuring costs | 18,104 | |
| Other operating expense net | 750 | 1,165 |
| Operating Income | 165,167 | 168,834 |
| Interest income | 433 | 1,371 |
| Interest expense | (16,539) | (18,951) |
| Other income (expense) net | 693 | (20) |
| Income Before Income Taxes | 149,754 | 151,234 |
| Income taxes | 46,873 | 53,171 |
| Net Income | \$ 102,881 | \$ 98,063 |
| Earnings per common share: | | |
| Net Income | \$ 0.86 | \$ 0.83 |
| Net Income Assuming Dilution | \$ 0.86 | \$ 0.83 |
| Dividends declared per common share | \$ 0.40 | \$ 0.35 |

See notes to unaudited condensed consolidated financial statements.

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

| | July 31, 2010 | April 30, 2010 |
|--|------------------------|----------------|
| | (Dollars in thousands) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 522,773 | \$ 283,570 |
| Marketable securities | 57,075 | |
| Trade receivables, less allowances | 305,418 | 238,867 |
| Inventories: | | |
| Finished products | 495,586 | 413,269 |
| Raw materials | 270,341 | 241,670 |
| | 765,927 | 654,939 |
| Other current assets | 49,435 | 46,254 |
| Total Current Assets | 1,700,628 | 1,223,630 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Land and land improvements | 63,187 | 62,982 |
| Buildings and fixtures | 310,412 | 308,358 |
| Machinery and equipment | 1,007,798 | 997,374 |
| Construction in progress | 43,822 | 31,426 |
| | 1,425,219 | 1,400,140 |
| Accumulated depreciation | (578,027) | (541,827) |
| Total Property, Plant, and Equipment | 847,192 | 858,313 |
| OTHER NONCURRENT ASSETS | | |
| Goodwill | 2,806,888 | 2,807,730 |
| Other intangible assets, net | 3,007,187 | 3,026,515 |
| Other noncurrent assets | 57,209 | 58,665 |
| Total Other Noncurrent Assets | 5,871,284 | 5,892,910 |
| | \$ 8,419,104 | \$ 7,974,853 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 183,600 | \$ 179,509 |
| Accrued trade marketing and merchandising | 79,238 | 52,536 |
| Current portion of long-term debt | 10,000 | 10,000 |
| Other current liabilities | 181,398 | 236,852 |
| Total Current Liabilities | 454,236 | 478,897 |
| NONCURRENT LIABILITIES | | |

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| | | |
|--------------------------------------|--------------|--------------|
| Long-term debt | 1,300,000 | 900,000 |
| Deferred income taxes | 1,104,285 | 1,101,506 |
| Other noncurrent liabilities | 165,475 | 168,130 |
| Total Noncurrent Liabilities | 2,569,760 | 2,169,636 |
| SHAREHOLDERS' EQUITY | | |
| Common shares | 29,875 | 29,780 |
| Additional capital | 4,587,777 | 4,575,127 |
| Retained income | 800,571 | 746,063 |
| Amount due from ESOP Trust | (3,334) | (4,069) |
| Accumulated other comprehensive loss | (19,781) | (20,581) |
| Total Shareholders' Equity | 5,395,108 | 5,326,320 |
| | \$ 8,419,104 | \$ 7,974,853 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended July 31, | |
|--|-----------------------------|------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 102,881 | \$ 98,063 |
| Adjustments to reconcile net income to net cash used for operating activities: | | |
| Depreciation | 29,360 | 25,271 |
| Amortization | 18,497 | 18,377 |
| Share-based compensation expense | 5,392 | 6,412 |
| Noncash restructuring charges | 13,238 | |
| Loss on sale of assets net | 134 | 384 |
| Changes in assets and liabilities, net of effect from businesses acquired: | | |
| Trade receivables | (66,958) | (38,672) |
| Inventories | (111,907) | (174,957) |
| Accounts payable and accrued items | 32,969 | 16,453 |
| Defined benefit pension contributions | (10,544) | (350) |
| Income taxes | (43,555) | 5,935 |
| Other net | 3,255 | 17,236 |
| Net cash used for operating activities | (27,238) | (25,848) |
| INVESTING ACTIVITIES | | |
| Additions to property, plant, and equipment | (26,946) | (27,271) |
| Maturities of marketable securities | | 2,404 |
| Purchases of marketable securities | (57,037) | |
| Proceeds from disposal of property, plant, and equipment | 290 | |
| Other net | 40 | (160) |
| Net cash used for investing activities | (83,653) | (25,027) |
| FINANCING ACTIVITIES | | |
| Repayments of long-term debt | | (75,000) |
| Proceeds from long-term debt | 400,000 | |
| Quarterly dividends paid | (47,594) | (41,407) |
| Purchase of treasury shares | (5,033) | (4,873) |
| Proceeds from stock option exercises | 1,325 | 1,202 |
| Other net | 2,213 | 713 |
| Net cash provided by (used for) financing activities | 350,911 | (119,365) |
| Effect of exchange rate changes | (817) | 3,319 |
| Net increase (decrease) in cash and cash equivalents | 239,203 | (166,921) |
| Cash and cash equivalents at beginning of period | 283,570 | 456,693 |
| Cash and cash equivalents at end of period | \$ 522,773 | \$ 289,772 |

() 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. Certain prior year amounts have been reclassified to conform to current year classifications.

Operating results for the three-month period ended July 31, 2010, are not necessarily indicative of the results that may be expected for the year ending April 30, 2011. 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, 2010.

Note B Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which requires additional disclosures about fair value measurements including transfers in and out of different levels of the fair value hierarchy and a higher level of disaggregation for different types of financial instruments. These disclosure requirements were effective April 30, 2010, for the Company. In addition, for the reconciliation of Level 3 fair value measurements, ASU 2010-06 requires information about purchases, sales, issuances, and settlements to be presented separately. These disclosure requirements will be effective May 1, 2011, for the Company. The Company is currently assessing the impact, if any, on the consolidated financial statements.

Note C Restructuring

During 2010, the Company announced its plan to restructure certain operations as part of its ongoing efforts to enhance the long-term strength and profitability of its leading brands. The initiative is a long-term investment to optimize production capacity and lower the overall cost structure and includes capital investments for a new state-of-the-art food manufacturing facility in Orrville, Ohio, and consolidation of all coffee production in New Orleans, Louisiana. The plan calls for the closing of four of the Company's plants—Memphis, Tennessee; Ste. Marie, Quebec; Sherman, Texas; and Kansas City, Missouri. Upon completion, the restructuring will result in the reduction of approximately 700 full-time positions.

The Company expects to incur restructuring costs of approximately \$190.0 million, of which \$33.3 million has been incurred through July 31, 2010, since the announcement of the plan. The balance of the costs will be incurred over the next four fiscal years as the facilities are closed.

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The following table summarizes the restructuring activity, including the reserves established and the total amount expected to be incurred.

| | Long-Lived Asset Charges | Employee Separation | Site Preparation and Equipment Relocation | Production Start-up | Other Costs | Total |
|---|--------------------------------|------------------------|---|------------------------|----------------|------------|
| Total expected restructuring charge | \$ 90,000 | \$ 47,000 | \$ 22,000 | \$ 21,000 | \$ 10,000 | \$ 190,000 |
| Balance at May 1, 2009 | \$ | \$ | \$ | \$ | \$ | \$ |
| Charge to expense | 3,870 | 1,139 | 407 | 16 | 279 | 5,711 |
| Cash payments | | (50) | (407) | (16) | (279) | (752) |
| Noncash utilization | (3,870) | | | | | (3,870) |
| Balance at April 30, 2010 | \$ | \$ 1,089 | \$ | \$ | \$ | \$ 1,089 |
| Charge to expense | 9,453 | 16,748 | 1,268 | 61 | 27 | 27,557 |
| Cash payments | | (10,342) | (1,268) | (61) | (27) | (11,698) |
| Noncash utilization | (9,453) | (3,785) | | | | (13,238) |
| Balance at July 31, 2010 | \$ | \$ 3,710 | \$ | \$ | \$ | \$ 3,710 |
| Remaining expected restructuring charge | \$ 76,677 | \$ 29,113 | \$ 20,325 | \$ 20,923 | \$ 9,694 | \$ 156,732 |

Approximately \$9,453 of the total restructuring charges of \$27,557 in the three months ended July 31, 2010, were reported in 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 classified as cost of products sold include primarily accelerated depreciation related to property, plant, and equipment that will be used at the affected production facilities until the facilities close or are sold.

Expected employee separation costs include severance, retention bonuses, and pension costs. Severance costs and retention bonuses are being recognized over the estimated future service period of the affected employees. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets. For information on the impact of the restructuring plan on defined benefit pension and other postretirement benefit plans, see Note I Pensions and Other Postretirement Benefits.

Other costs include miscellaneous expenditures associated with the Company's restructuring initiative and are expensed as incurred. These costs include professional fees and other costs related to closing the facilities.

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 \$5,392 and \$6,412 for the three months ended July 31, 2010 and 2009, respectively. Of the total compensation expense for share-based awards recorded, \$1,052 and \$1,859 was included in merger and integration costs in the Condensed Statements of Consolidated Income for the three months ended July 31, 2010 and 2009, respectively. The related tax benefit recognized was \$1,688 and \$2,254 for the three months ended July 31, 2010 and 2009, respectively.

As of July 31, 2010, total compensation cost related to nonvested share-based awards not yet recognized was approximately \$47,382. The weighted-average period over which this amount is expected to be recognized is approximately 3.2 years.

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The following table sets forth common share information.

| | July 31, 2010 | April 30, 2010 |
|---------------------------|---------------|----------------|
| Common shares authorized | 150,000,000 | 150,000,000 |
| Common shares outstanding | 119,500,209 | 119,119,152 |
| Treasury shares | 9,103,956 | 9,485,013 |

Note F 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*®, *Dunkin Donuts*®, and *Millstone*® branded coffee to retail customers; the U.S. Retail Consumer Market segment primarily includes domestic sales of *Smucker's*®, *Jif*®, and *Hungry Jack*® branded products; the U.S. Retail Oils and Baking Market segment includes domestic sales of *Crisco*®, *Pillsbury*®, *Eagle Brand*®, and *Martha White*® branded products; and the Special Markets segment is comprised of the Canada, foodservice, natural foods, 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.

While the Company's four reportable segments remain the same for 2011, the calculation of segment profit has been modified to include intangible asset amortization and impairment charges related to segment assets, along with certain other items in each of the segments. These items were previously considered corporate expenses and were not allocated to the segments. This change more accurately aligns the segment financial results with the responsibilities of segment management, most notably in the area of intangible assets. Fiscal 2010 segment profit has been recalculated to be consistent with the current methodology.

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The following table sets forth reportable segment information.

| | Three Months Ended July 31, | |
|-------------------------------------|--------------------------------|--------------|
| | 2010 | 2009 |
| Net sales: | | |
| U.S. Retail Coffee Market | \$ 393,570 | \$ 366,229 |
| U.S. Retail Consumer Market | 279,275 | 291,002 |
| U.S. Retail Oils and Baking Market | 173,871 | 194,416 |
| Special Markets | 200,596 | 199,879 |
| Total net sales | \$ 1,047,312 | \$ 1,051,526 |
| Segment profit: | | |
| U.S. Retail Coffee Market | \$ 111,882 | \$ 111,167 |
| U.S. Retail Consumer Market | 71,417 | 66,123 |
| U.S. Retail Oils and Baking Market | 22,587 | 25,680 |
| Special Markets | 34,872 | 26,694 |
| Total segment profit | \$ 240,758 | \$ 229,664 |
| Interest income | 433 | 1,371 |
| Interest expense | (16,539) | (18,951) |
| Share-based compensation expense | (4,340) | (4,553) |
| Merger and integration costs | (2,656) | (16,476) |
| Cost of products sold restructuring | (9,453) | |
| Other restructuring costs | (18,104) | |
| Corporate administrative expenses | (41,038) | (39,801) |
| Other income (expense) | 693 | (20) |
| Income before income taxes | \$ 149,754 | \$ 151,234 |

Note G Debt and Financing Arrangements

Long-term debt consists of the following:

| | July 31, 2010 | April 30, 2010 |
|---|---------------|-------------------|
| 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 |
| 4.50% Senior Notes due June 1, 2025 | 400,000 | |
| Total long-term debt | \$ 1,310,000 | \$ 910,000 |
| Current portion of long-term debt | 10,000 | 10,000 |

| | | |
|---|--------------|------------|
| Total long-term debt less current portion | \$ 1,300,000 | \$ 900,000 |
|---|--------------|------------|

On June 15, 2010, the Company issued \$400.0 million in 4.50 percent Senior Notes with a final maturity on June 1, 2025. The Senior Notes have a 12-year average maturity. Proceeds from the Senior Notes issuance will be used for general corporate purposes.

All of the Company's Senior Notes are unsecured and interest is paid semiannually. Prepayments are required on the 5.55 percent Senior Notes, the first of which is \$50.0 million on April 1, 2013, and on the 4.50 percent Senior Notes, the first of which is \$100.0 million on June 1, 2020.

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The Company has available an unsecured \$400.0 million revolving credit facility with a group of five banks maturing on October 29, 2012, and an unsecured \$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. At July 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 an interest coverage ratio. The Company is in compliance with all covenants.

Note H Earnings per Share

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

| | Three Months Ended July 31, | |
|--|-----------------------------|-------------|
| | 2010 | 2009 |
| Computation of net income per share: | | |
| Net income | \$ 102,881 | \$ 98,063 |
| Net income allocated to participating securities | 987 | 834 |
| Net income allocated to common stockholders | \$ 101,894 | \$ 97,229 |
| Weighted-average common shares outstanding | 118,156,815 | 117,654,929 |
| Net income per common share | \$ 0.86 | \$ 0.83 |

| | Three Months Ended July 31, | |
|--|-----------------------------|-------------|
| | 2010 | 2009 |
| Computation of net income per share assuming dilution: | | |
| Net income | \$ 102,881 | \$ 98,063 |
| Net income allocated to participating securities | 986 | 834 |
| Net income allocated to common stockholders | \$ 101,895 | \$ 97,229 |
| Weighted-average common shares outstanding | 118,156,815 | 117,654,929 |
| Dilutive effect of stock options | 139,564 | 81,591 |
| Weighted-average common shares outstanding assuming dilution | 118,296,379 | 117,736,520 |
| Net income per common share assuming dilution | \$ 0.86 | \$ 0.83 |

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 July 31, | |
|--|-----------------------------|------|
| | 2010 | 2009 |

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| | | |
|---|-------------|-------------|
| Weighted-average common shares outstanding | 118,156,815 | 117,654,929 |
| Weighted-average participating shares outstanding | 1,144,111 | 1,009,724 |
| Total weighted-average shares outstanding | 119,300,926 | 118,664,653 |
| Dilutive effect of stock options | 139,564 | 81,591 |
| Total weighted-average shares outstanding assuming dilution | 119,440,490 | 118,746,244 |

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The components of the Company's net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below.

| | Three Months Ended July 31, | | | |
|--------------------------------------|----------------------------------|----------|----------------------------------|--------|
| | Defined Benefit Pension Plans | | Other Postretirement Benefits | |
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 1,858 | \$ 1,410 | \$ 405 | \$ 494 |
| Interest cost | 6,346 | 6,097 | 690 | 643 |
| Expected return on plan assets | (6,657) | (5,641) | | |
| Recognized net actuarial loss (gain) | 1,727 | 1,547 | (134) | (261) |
| Termination benefit cost | 7,462 | | 2,413 | |
| Curtailement | 3,910 | | | |
| Other | 288 | 307 | (122) | (122) |
| Net periodic benefit cost | \$ 14,934 | \$ 3,720 | \$ 3,252 | \$ 754 |

Upon completion of the restructuring plan discussed in Note C Restructuring, approximately 700 full-time positions will be reduced. The Company has included the estimated impact of the planned reductions in measuring the net periodic benefit cost of the defined benefit pension and other postretirement benefit plans for the three months ended July 31, 2010. The Company recognized a charge for termination benefits of \$7,462 and \$2,413 for defined benefit pension and other postretirement benefit plans, respectively, and a curtailment charge of \$3,910 for defined benefit pension plans related to the planned reductions during the three months ended July 31, 2010.

Note J Comprehensive Income

The following table summarizes the components of comprehensive income.

| | Three Months Ended July 31, | |
|---|--------------------------------|------------|
| | 2010 | 2009 |
| Net income | \$ 102,881 | \$ 98,063 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | (3,608) | 25,751 |
| Unrealized (loss) gain on available-for-sale securities | (1,397) | 565 |
| Unrealized gain (loss) on cash flow hedging derivatives | 8,968 | (244) |
| Unrealized loss on pension and other postretirement liabilities | (300) | |
| Income tax expense | (2,863) | (98) |
| Comprehensive income | \$ 103,681 | \$ 124,037 |

Note K 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 L 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, corn, and corn sweetener. 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), 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 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.

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The following table sets forth the fair value of derivative instruments recognized in the Condensed Consolidated Balance Sheet.

| | July 31, 2010 | | April 30, 2010 | |
|--|----------------------------|---------------------------------|----------------------------|---------------------------------|
| | Other Current Assets | Other Current Liabilities | Other Current Assets | Other Current Liabilities |
| Derivatives designated as hedging instruments: | | | | |
| Commodity contracts | \$ 6,252 | \$ | \$ 1,874 | \$ 9 |
| Derivatives not designated as hedging instruments: | | | | |
| Commodity contracts | \$ 9,095 | \$ 1,632 | \$ 2,414 | \$ 599 |
| Foreign currency exchange contracts | | 210 | | 830 |
| Total derivatives not designated as hedging | \$ 9,095 | \$ 1,842 | \$ 2,414 | \$ 1,429 |
| Total derivatives instruments | \$ 15,347 | \$ 1,842 | \$ 4,288 | \$ 1,438 |

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 \$5,855 and \$5,714 at July 31, 2010 and April 30, 2010, 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 July 31, | |
|---|--------------------------------|----------|
| | 2010 | 2009 |
| Gain recognized in other comprehensive income (effective portion) | \$ 8,931 | \$ 732 |
| (Loss) gain reclassified from accumulated other comprehensive loss to cost of products sold (effective portion) | (37) | 976 |
| Change in accumulated other comprehensive loss | \$ 8,968 | \$ (244) |
| Gain recognized in cost of products sold (ineffective portion) | \$ 171 | \$ 43 |

Included as a component in accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets at July 31, 2010 and April 30, 2010, were deferred gains of \$12,096 and \$3,128, respectively. The related tax impact recognized in accumulated other comprehensive loss was \$4,393 and \$1,134 at July 31, 2010 and April 30, 2010, respectively. The entire amount of the deferred gain included in accumulated other comprehensive loss at July 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 Ended July 31, | |
|--------------------------------|------|
| 2010 | 2009 |

| | | |
|--|----------|------------|
| Gain (loss) on commodity contracts | \$ 4,393 | \$ (604) |
| Gain (loss) on foreign currency exchange contracts | 477 | (5,518) |
| Total | \$ 4,870 | \$ (6,122) |

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The following table presents the gross contract notional value of outstanding derivative contracts at July 31, 2010 and April 30, 2010.

| | July 31, 2010 | April 30, 2010 |
|-------------------------------------|---------------|-------------------|
| Commodity contracts | \$ 495,813 | \$ 323,351 |
| Foreign currency exchange contracts | 42,755 | 45,295 |

Note M 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 marketable securities and trade receivables. The Company's marketable securities are in debt securities. Under the Company's investment policy, it may invest in securities deemed to be investment grade at the time of purchase. The Company determines the appropriate categorization of 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 the Company's financial instruments.

| | July 31, 2010 | | April 30, 2010 | |
|--|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Marketable securities | \$ 57,075 | \$ 57,075 | \$ | \$ |
| Other investments and securities | 33,384 | 33,384 | 34,895 | 34,895 |
| Derivatives financial instruments, net | 13,505 | 13,505 | 2,850 | 2,850 |
| Fixed-rate long-term debt | 1,310,000 | 1,691,099 | 910,000 | 1,172,467 |

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.

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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.

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value at July 31, 2010 | Fair Value at April 30, 2010 |
|--|--|--|--|--------------------------------------|---------------------------------------|
| Marketable securities: ^(A) | | | | | |
| Commercial paper | \$ | \$ 48,061 | \$ | \$ 48,061 | \$ |
| Municipal obligations | | 9,014 | | 9,014 | |
| Other investments: ^(B) | | | | | |
| Equity mutual funds | 10,139 | | | 10,139 | 11,626 |
| Municipal obligations | | 16,570 | | 16,570 | 16,753 |
| Other investments | 495 | 6,180 | | 6,675 | 6,516 |
| Derivatives: ^(C) | | | | | |
| Commodity contracts, net | 13,715 | | | 13,715 | 3,680 |
| Foreign currency exchange contracts | (210) | | | (210) | (830) |
| Total | \$ 24,139 | \$ 79,825 | \$ | \$ 103,964 | \$ 37,745 |

^(A) The Company's marketable securities consist of commercial paper and municipal obligations valued by a third party using an evaluated pricing methodology.

^(B) The Company's other investments consist of funds maintained for the payment of benefits associated with

nonqualified retirement plans. The funds include equity securities listed in active markets and municipal obligations 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 L Derivative Financial Instruments.

Note N Income Taxes

During the three-month period ended July 31, 2010, the Company's effective tax rate decreased to 31.3 percent, compared to 35.2 percent in the three-month period ended July 31, 2009, reflecting the impact of increased benefits realized from the domestic manufacturing deduction, lower state income taxes, and a favorable federal income tax determination related to a prior year. During the three-month period ended July 31, 2010, the effective income tax rate varied from the U.S. statutory income tax rate primarily due to the domestic manufacturing deduction partially offset by state income taxes.

Within the next twelve months, it is reasonably possible that the Company could decrease its unrecognized tax benefits by an additional \$3.0 million, primarily as a result of expiring statute of limitations periods.

Table of Contents**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 periods ended July 31, 2010 and 2009.

The Company is the owner of all trademarks, except *Pillsbury*® is a trademark of The Pillsbury Company LLC, used under license; and *Dunkin' Donuts*® is a registered trademark of DD IP Holder LLC, used under license.

Results of Operations

| | Three Months Ended July 31, | |
|---|--|--------------|
| | 2010 | 2009 |
| | (Dollars in millions, except per share data) | |
| Net sales | \$ 1,047.3 | \$ 1,051.5 |
| Operating income | \$ 165.2 | \$ 168.8 |
| <i>% of net sales</i> | <i>15.8%</i> | <i>16.1%</i> |
| Net income: | | |
| Net income | \$ 102.9 | \$ 98.1 |
| Net income per common share assuming dilution | \$ 0.86 | \$ 0.83 |
| Operating income before restructuring and merger and integration costs ⁽¹⁾ | \$ 195.4 | \$ 185.3 |
| <i>% of net sales</i> | <i>18.7%</i> | <i>17.6%</i> |
| Income before restructuring and merger and integration costs: ⁽²⁾ | | |
| Income | \$ 123.6 | \$ 108.7 |
| Income per common share assuming dilution | \$ 1.04 | \$ 0.92 |
| ⁽¹⁾ Reconciliation to operating income: | | |
| Operating income | \$ 165.2 | \$ 168.8 |
| Merger and integration costs | 2.7 | 16.5 |
| Cost of products sold restructuring | 9.4 | |
| Other restructuring costs | 18.1 | |
| Operating income before restructuring and merger and integration costs | \$ 195.4 | \$ 185.3 |
| ⁽²⁾ Reconciliation to net income: | | |
| Income before income taxes | \$ 149.8 | \$ 151.2 |
| Merger and integration costs | 2.7 | 16.5 |
| Cost of products sold restructuring | 9.4 | |
| Other restructuring costs | 18.1 | |
| Income before income taxes, restructuring, and merger and integration costs | 180.0 | 167.7 |
| Income taxes, as adjusted | 56.4 | 59.0 |
| Income before restructuring and merger and integration costs | \$ 123.6 | \$ 108.7 |

Net sales in the first quarter of 2011 were essentially flat compared to the first quarter of 2010 as the impact of favorable sales mix offset an overall volume decline. Operating income decreased approximately two percent in the first quarter of 2011, compared to the first quarter of 2010, as an increase in restructuring and merger and integration costs (special project costs) offset the impact of unrealized mark-to-market gains on derivatives and favorable sales mix. Excluding special project costs, operating income increased five percent,

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and operating margin improved to 18.7 percent in the first quarter of 2011, compared to 17.6 percent in the first quarter of 2010. The Company's net income per diluted share was \$0.86 and \$0.83 for the first quarters of 2011 and 2010, respectively, an increase of four percent. The Company's non-GAAP income per diluted share was \$1.04 and \$0.92 for the first quarters of 2011 and 2010, respectively, an increase of 13 percent as the first quarter of 2011 benefited from the operating income improvements and the impact of a lower effective tax rate compared to the first quarter of 2010.

Net Sales

| | Three Months Ended July 31, | | | |
|---|-----------------------------|------------|------------------------|------|
| | 2010 | 2009 | Increase (Decrease) | % |
| | (Dollars in millions) | | | |
| Net sales | \$ 1,047.3 | \$ 1,051.5 | \$ (4.2) | (0%) |
| Adjust for noncomparable items: | | | | |
| Divestiture | | (9.9) | 9.9 | 1% |
| Foreign currency exchange | (6.7) | | (6.7) | (1%) |
| Net sales without divestiture and foreign currency exchange | \$ 1,040.6 | \$ 1,041.6 | \$ (1.0) | (0%) |

The Company achieved volume increases in *Folgers*® and *Dunkin' Donuts*® brand coffee, *Jif*® peanut butter, *Hungry Jack*® pancake mixes and syrups, and natural foods beverages. Net sales of \$1,047.3 million in the first quarter of 2011 were essentially equal to the first quarter of 2010 as the impact of favorable foreign exchange rates and sales mix offset the impact of the potato business divested in the fourth quarter of 2010 and an overall three percent decline in volume. The volume decline in the first quarter of 2011 was driven by the Company's oils and baking brands in the U.S. and Canada. The impact of price changes on net sales was not significant in the first quarter of 2011, compared to 2010.

Operating Income

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

| | Three Months Ended July | |
|--|-------------------------|-------|
| | 2010 | 2009 |
| Gross profit | 39.0% | 38.6% |
| Selling, distribution, and administrative expenses: | | |
| Marketing | 6.6% | 6.6% |
| Selling | 3.4% | 3.4% |
| Distribution | 3.5% | 3.5% |
| General and administrative | 5.9% | 5.6% |
| Total selling, distribution, and administrative expenses | 19.4% | 19.1% |
| Amortization | 1.8% | 1.7% |
| Restructuring and merger and integration costs | 2.0% | 1.6% |
| Other operating expense - net | 0.0% | 0.1% |
| Operating income | 15.8% | 16.1% |

Gross profit increased \$2.4 million to 39.0 percent of net sales in the first quarter of 2011, from 38.6 percent in the first quarter of 2010. The first quarter of 2011 includes the impact of unrealized mark-to-market gains on commodity derivatives, approximating \$6.7 million, which partially offset restructuring charges included in cost of products sold. The impact of raw material costs on gross profit was mixed, as increased costs for green coffee were offset by lower costs for peanuts and certain fruits. Gross profit also benefited in the first quarter of 2011 from favorable sales mix as a larger portion of total Company sales were from coffee, peanut butter, and fruit spreads, all of which generate a higher profit margin.

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Selling, distribution, and administrative expenses increased one percent for the first quarter of 2011, compared to 2010, and increased as a percentage of net sales from 19.1 percent to 19.4 percent. Marketing, selling, and distribution expenses in the first quarter of 2011 each remained relatively even with 2010. General and administrative expenses increased four percent over the same period due to higher depreciation charges and digital marketing initiatives. Operating income decreased \$3.7 million, or two percent, in the first quarter of 2011, compared to 2010, due to an increase in special project costs of approximately \$13.7 million. Excluding the impact of special project costs in both periods, operating income increased \$10.1 million, or five percent, and improved from 17.6 percent of net sales in 2010, to 18.7 percent in 2011.

Other

Despite an increase in the average invested balance in the first quarter of 2011, compared to 2010, interest income decreased \$0.9 million due to a lower overall investment yield during the quarter. Interest expense decreased \$2.4 million during the first quarter of 2011, compared to 2010, resulting from overall lower borrowings outstanding during the quarter. Fiscal 2010 debt repayments totaling \$625.0 million were made in June and November 2009, and were offset somewhat by the issuance of \$400.0 million in Senior Notes on June 15, 2010.

Income taxes decreased \$6.3 million in the first quarter of 2011, compared to 2010, and resulted in a quarterly effective tax rate of 31.3 percent in 2011 compared to 35.2 percent in 2010. The fiscal 2011 first quarter effective tax rate reflects benefits realized from an increased deduction related to U.S. manufacturing activities, compared to 2010, together with lower state income taxes, and a favorable federal income tax determination related to a prior year item.

Table of Contents**Segment Results**

While the Company's four reportable segments remain the same for 2011, the calculation of segment profit has been modified to include intangible asset amortization and impairment charges related to segment assets, along with certain other items in each of the segments. These items were previously considered corporate expenses and were not allocated to the segments. This change more accurately aligns the segment financial results with the responsibilities of segment management, most notably in the area of intangible assets. Fiscal 2010 segment profit has been recalculated to be consistent with the current methodology.

| | Three Months Ended July 31, | | |
|------------------------------------|-----------------------------|----------|-----------------------------|
| | 2010 | 2009 | % Increase (Decrease) |
| | (Dollars in millions) | | |
| Net sales: | | | |
| U.S. Retail Coffee Market | \$ 393.6 | \$ 366.2 | 7% |
| U.S. Retail Consumer Market | 279.3 | 291.0 | (4%) |
| U.S. Retail Oils and Baking Market | 173.9 | 194.4 | (11%) |
| Special Markets | 200.6 | 199.9 | 0% |
| Segment profit: | | | |
| U.S. Retail Coffee Market | \$ 111.9 | \$ 111.2 | 1% |
| U.S. Retail Consumer Market | 71.4 | 66.1 | 8% |
| U.S. Retail Oils and Baking Market | 22.6 | 25.7 | (12%) |
| Special Markets | 34.9 | 26.7 | 31% |
| Segment profit margin: | | | |
| U.S. Retail Coffee Market | 28.4% | 30.4% | |
| U.S. Retail Consumer Market | 25.6% | 22.7% | |
| U.S. Retail Oils and Baking Market | 13.0% | 13.2% | |
| Special Markets | 17.4% | 13.4% | |

U.S. Retail Coffee Market

The U.S. Retail Coffee Market segment net sales increased seven percent in the first quarter of 2011, compared to a strong first quarter in 2010. Segment volume increased five percent as the *Folgers*® brand contributed the majority of the improvement and *Dunkin' Donuts*® coffee increased 15 percent. Coffee price increases, averaging four percent, were taken during the first quarter of 2011, and also contributed modestly to the net sales increase.

Increased net sales offset higher green coffee costs in the first quarter of 2011, compared to 2010, and resulted in an increase in U.S. Retail Coffee Market segment profit of one percent. Segment profit margin was 28.4 percent in 2011, compared to a strong segment margin in 2010 of 30.4 percent, which reflected lower green coffee costs in 2010.

U.S. Retail Consumer Market

The U.S. Retail Consumer Market segment net sales and volume for the first quarter of 2011 were essentially flat compared to the first quarter of 2010, excluding the potato products business divested in the fourth quarter of 2010. Reported segment net sales and volume for the first quarter of 2011 decreased four percent and three percent, respectively, compared to a strong first quarter of 2010. Volume gains were realized in *Jif*®

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peanut butter, *Smucker's*® *Snack n Waffles*® brand waffles, and *Hungry Jack*® pancake mixes and syrups, offsetting volume declines in toppings. Fruit spreads sales were up due to favorable mix, while volume was down slightly in the first quarter of 2011, compared to the first quarter of 2010, due to the timing of promotions that occurred in the first quarter of 2010, but are planned for the second quarter of 2011.

The U.S. Retail Consumer Market segment profit increased eight percent for the first quarter of 2011, compared to the first quarter in 2010. Additional marketing investments were more than offset by lower raw material costs, primarily peanuts and certain fruits, a decrease in supply chain costs, and favorable product mix associated with peanut butter. Segment profit margin for the quarter improved from 22.7 percent in the first quarter of 2010, to 25.6 percent in 2011. The divestiture of the lower-margin potato business also contributed to the segment profit margin improvement.

U.S. Retail Oils and Baking Market

Net sales and volume in the U.S. Retail Oils and Baking Market segment were down 11 percent and 12 percent, respectively, for the first quarter of 2011, compared to 2010. Net sales and volume declines were driven primarily by *Pillsbury*® flour and baking mixes and *Crisco*® oils in a highly competitive and promotional retail environment that has persisted since the fourth quarter of 2010. Planned rationalizations of certain lower-margin baking products also contributed slightly to the decrease in net sales and volume.

The U.S. Retail Oils and Baking Market segment profit decreased 12 percent for the first quarter of 2011, compared to the first quarter of 2010, primarily due to the decline in net sales and higher production costs. Unrealized mark-to-market adjustments on commodity derivatives favorably impacted segment profit in the first quarter of 2011. Segment profit margin decreased modestly during the quarter from 13.2 percent in 2010, to 13.0 percent in 2011.

Special Markets

Net sales in the Special Markets segment in the first quarter of 2011 were flat compared to the first quarter of 2010. Excluding foreign exchange, net sales decreased three percent in the first quarter of 2011, compared to 2010. Volume increased one percent in the first quarter of 2011, compared to 2010, driven by gains in the natural foods, canned milk, condiments, and coffee categories, which offset declines in the flour, oil, and foodservice portion control categories. The impact of volume growth on net sales was more than offset by price decreases and the timing of promotional spending.

Special Markets segment profit margin increased to 17.4 percent from 13.4 percent for the first quarter of 2011, compared to 2010, primarily due to lower supply chain costs, the favorable impact of mix, and unrealized mark-to-market adjustments on derivatives.

Table of Contents**Financial Condition Liquidity and Capital Resources****Liquidity**

| (Dollars in millions) | Three Months Ended July | |
|--|-------------------------|-----------|
| | 2010 | 2009 |
| Net cash used for operating activities | \$ (27.2) | \$ (25.8) |
| Net cash used for investing activities | (83.7) | (25.0) |
| Net cash provided by (used for) financing activities | 350.9 | (119.4) |
| Net cash used for operating activities | \$ (27.2) | \$ (25.8) |
| Additions to property, plant, and equipment | (26.9) | (27.3) |
| Free cash flow | \$ (54.1) | \$ (53.1) |

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 July 31, 2010, were \$522.8 million compared to \$283.6 million at April 30, 2010.

The Company expects a significant use of cash during the first half of each fiscal year, primarily due to 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. The Company expects cash provided by operations in the second half of the fiscal year to exceed the first half of the year, upon completion of the Company's key promotional periods.

Cash used for operating activities in the first three months of 2011 was \$27.2 million compared to \$25.8 million in 2010. As is typical in the first half of each fiscal year, the cash generated from earnings was offset by working capital requirements, primarily the seasonal buildup of inventory, and income tax payments.

Cash used for investing activities was \$83.7 million in the first three months of 2011, compared to \$25.0 million in the same period of 2010. The increased cash used for investing activities in 2011, compared to 2010, was primarily the purchase of \$57.0 million of marketable securities in 2011. Cash used for capital expenditures was \$26.9 million in the first quarter of 2011, comparable to \$27.3 million in 2010. The Company expects capital expenditures to increase throughout the remainder of 2011 as expenditures for the coffee and fruit spreads restructuring project accelerates.

Cash provided by financing activities during the first three months of 2011 was approximately \$350.9 million, consisting primarily of the issuance of \$400.0 million in Senior Notes offset by quarterly dividend payments of \$47.6 million. During the first three months of 2010, total cash of \$119.4 million was used for financing purposes consisting primarily of \$75.0 million in debt repayments and \$41.4 million in quarterly dividend payments. The increased dividend payments in 2011, compared to 2010, resulted primarily from an increase in the quarterly dividend rate from \$0.35 to \$0.40 per common share during the period.

Table of Contents**Capital Resources**

The following table presents the Company's capital structure:

| | July 31, 2010 | April 30, 2010 |
|-----------------------------------|-----------------------|----------------|
| | (Dollars in millions) | |
| Current portion of long-term debt | \$ 10.0 | \$ 10.0 |
| Long-term debt | 1,300.0 | 900.0 |
| Total debt | \$ 1,310.0 | \$ 910.0 |
| Shareholders' equity | 5,395.1 | 5,326.3 |
| Total capital | \$ 6,705.1 | \$ 6,236.3 |

The Company has available a \$180.0 million revolving credit facility with a group of three banks that expires in January 2011, and a \$400.0 million revolving credit facility with a group of five banks that expires in October 2012. No amounts were outstanding against the revolving credit facilities at July 31, 2010.

On June 15, 2010, the Company issued \$400.0 million in 4.5 percent Senior Notes with a final maturity on June 1, 2025. The Senior Notes have a 12-year average maturity with required prepayments starting on June 1, 2020. Proceeds from the Senior Notes issuance will be used for general corporate purposes.

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.

Non-GAAP Measures

The Company uses non-GAAP measures including net sales, excluding divestitures and foreign currency exchange rate impact; operating income, income, and income per diluted share, excluding restructuring and merger and integration costs; and free cash flow as key measures for purposes of evaluating performance internally. The non-GAAP measures are not intended to replace the presentation of financial results in accordance with generally accepted accounting principles (GAAP). Rather, the presentation of these non-GAAP measures supplements other metrics used by management to internally evaluate its businesses, and facilitate the comparison of past and present operations. These non-GAAP measures may not be comparable to similar measures used by other companies and may exclude certain nondiscretionary expenses and cash payments.

Table of Contents**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 July 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 period ended July 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's financial liabilities would change as a result of movements in interest rates. Based on a hypothetical one-percentage point decrease in interest rates at July 31, 2010, the fair value of the Company's long-term debt would increase by approximately \$72 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 July 31, 2010, are not expected to result in a significant impact on future earnings or cash flows.

The Company utilizes foreign currency exchange forwards and options contracts to manage the price volatility of foreign currency exchange fluctuations on future cash transactions. The contracts generally have maturities of less than one year. The mark-to-market gains and losses on qualifying hedges are included as a component of other comprehensive income, and 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. Based on the Company's hedged foreign currency positions as of July 31, 2010, a hypothetical 10 percent change in exchange rates would result in a loss of fair value of approximately \$4.4 million.

Revenues from customers outside the U.S. represented approximately nine percent of net sales during the three-month period ended July 31, 2010. 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, investor speculation, 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.

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The following sensitivity analysis presents the Company's potential loss of fair value resulting from a hypothetical 10 percent change in market prices.

| (Dollars in millions) | July 31, 2010 | April 30, 2010 |
|---------------------------|------------------|-------------------|
| Raw material commodities: | | |
| High | \$ 22.1 | \$ 21.2 |
| Low | 2.4 | 2.3 |
| Average | 12.4 | 11.6 |

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, 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 successful completion of the Company's restructuring programs, and the ability to realize anticipated savings and other potential benefits within the time frames currently contemplated;

the impact of food safety concerns involving either the Company or its competitors' products;

the impact of accidents and 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 such 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, restructuring costs, 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 impact of new or changes to existing governmental laws and regulations or their application;

the impact of future legal, regulatory, or market measures regarding climate change;

the outcome of current and future tax examinations, changes in tax laws and other tax matters, and their related impact on the Company's tax 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

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Company with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K and proxy materials.

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 undertake 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 July 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's internal control over financial reporting that occurred during the quarter ended July 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, 2010, as revised below, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in the Company's other filings with the Securities and Exchange Commission in connection with evaluating the Company, its business, and the forward-looking statements contained in this Quarterly 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.

The risk factor described below updates the risk factors disclosed in Part 1, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended April 30, 2010:

Increases in logistics and other transportation-related costs could adversely impact the Company's results of operations. The Company's ability to competitively serve customers depends on the availability of reliable transportation.

Logistics and other transportation-related costs have a significant impact on the Company's earnings and results of operations. The Company uses multiple forms of transportation to bring the Company's products to market. They include ships, trucks, intermodals, and railcars. Disruption to the timely supply of these services or increases in the cost of these services for any reason, including availability or cost of fuel, regulations affecting the industry, labor shortages in the transportation industry, service failures by third-party service providers, accidents or natural disasters (which may impact the transportation infrastructure or demand for transportation services), could have an adverse effect on the Company's ability to serve its customers, and could have a material adverse effect on financial performance.

Table of ContentsItem 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs |
|------------------------------|--|--|---|--|
| May 1, 2010 - May 31, 2010 | 2,238 | \$ 42.45 | | 3,744,222 |
| June 1, 2010 - June 30, 2010 | 84,800 | 49.35 | | 3,744,222 |
| July 1, 2010 - July 31, 2010 | 1,623 | 44.28 | | 3,744,222 |
| Total | 88,661 | \$ 49.08 | | 3,744,222 |

Information set forth in the table above represents activity in the Company's first fiscal quarter.

(a) Shares in this column include shares repurchased as part of publicly announced plans, if any, 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 July 31, 2010, the Company had remaining authorization to repurchase 3,744,222 common shares under this program. Under the transaction agreement relating to the merger with The Folgers Coffee Company 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 which occurred on November 6, 2008.

Item 6. Exhibits.

See the Index of Exhibits that appears on Page No. 29 of this Quarterly Report.

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SIGNATURES

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

September 9, 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

| Exhibit No. | Description |
|------------------------|---|
| 3.1 | Amended Articles of Incorporation of The J. M. Smucker Company (Commission File 001-5111). |
| 3.2 | Amended Regulations of The J. M. Smucker Company (Commission File 001-5111). |
| 10.1 | Sixth Amendment, dated as of June 11, 2010, to Note Purchase Agreements, each dated as of August 23, 2000 (Commission File 001-5111). |
| 10.2 | Fourth Amendment, dated as of June 11, 2010, to Note Purchase Agreement, dated as of May 27, 2004 (Commission File 001-5111). |
| 10.3 | Third Amendment, dated as of June 11, 2010, to Note Purchase Agreement, dated as of May 31, 2007 (Commission File 001-5111). |
| 10.4 | Second Amendment, dated as of June 11, 2010, to Note Purchase Agreement, dated as of October 23, 2008 (Commission File 001-5111). |
| 10.5 | Note Purchase Agreement, dated as of June 15, 2010, by and among The J. M. Smucker Company and each of the Purchasers signatory thereto, incorporated herein by reference to the Company's Periodic Report on Form 8-K filed on June 17, 2010 (Commission File 001-5111). |
| 10.6 | Form of Deferred Stock Units Agreement (Commission File 001-5111). * |
| 31.1 | Certifications of Timothy P. Smucker pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act |
| 31.2 | Certifications of Richard K. Smucker pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act |
| 31.3 | Certifications of Mark R. Belgya pursuant to Rule 13a-14(a) and 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 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |

101.LAB XBRL Taxonomy Extension Label Linkbase Document

- * Management contract or compensatory plan or agreement.

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