SMUCKER J M CO
Form 10-Q
November 27, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2013

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	**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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The Company had 105,138,264 common shares outstanding on November 22, 2013.

The Exhibit Index is located at Page No. 39.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Unaudited)

(Dollars in millions, except per share data)	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Six Months Ended October 31, 2013	Six Months Ended October 31, 2012
Net sales	$ 1,559.9	$ 1,628.7	$ 2,910.8	$ 2,998.4
Cost of products sold	1,005.0	1,084.4	1,861.5	1,980.3
Cost of products sold restructuring and merger and integration	2.3	2.4	3.8	6.4
Gross Profit	552.6	541.9	1,045.5	1,011.7
Selling, distribution, and administrative expenses	270.3	257.2	520.5	489.4
Amortization	24.7	24.2	49.2	48.4
Other restructuring and merger and integration costs	6.9	11.5	12.7	28.7
Other special project costs				6.7
Other operating (income) expense net	(0.1)	1.4	(1.0)	0.4
Operating Income	250.8	247.6	464.1	438.1
Interest expense net	(20.5)	(23.9)	(44.3)	(47.5)
Other (expense) income net	(0.3)	0.5	(0.3)	0.9
Income Before Income Taxes	230.0	224.2	419.5	391.5
Income taxes	76.6	75.4	139.5	131.8
Net Income	$ 153.4	$ 148.8	$ 280.0	$ 259.7
Earnings per common share:				
Net Income	$ 1.46	$ 1.36	$ 2.65	$ 2.37
Net Income Assuming Dilution	$ 1.46	$ 1.36	$ 2.65	$ 2.36
Dividends Declared per Common Share	$ 0.58	$ 0.52	$ 1.16	$ 1.04

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Unaudited)

(Dollars in millions)	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Six Months Ended October 31, 2013	Six Months Ended October 31, 2012
Net income	$ 153.4	$ 148.8	$ 280.0	$ 259.7
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(4.6)	1.6	(10.6)	(3.5)
Cash flow hedging derivative activity, net of tax	(0.3)	(0.3)	1.6	2.5
Pension and other postretirement benefit plans activity, net of tax	0.6	2.1	2.5	4.2
Available-for-sale securities activity, net of tax	0.6	0.8	0.1	0.6
Total Other Comprehensive (Loss) Income	(3.7)	4.2	(6.4)	3.8
Comprehensive Income	$ 149.7	$ 153.0	$ 273.6	$ 263.5

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions)	October 31, 2013	April 30, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 150.5	$ 256.4
Trade receivables, less allowance for doubtful accounts	464.2	313.7
Inventories:		
Finished products	672.5	618.9
Raw materials	351.2	326.6
	1,023.7	945.5
Other current assets	123.9	79.6
Total Current Assets	1,762.3	1,595.2
Property, Plant, and Equipment		
Land and land improvements	103.2	98.5
Buildings and fixtures	516.0	494.4
Machinery and equipment	1,368.4	1,267.5
Construction in progress	69.1	124.9
	2,056.7	1,985.3
Accumulated depreciation	(893.5)	(842.8)
Total Property, Plant, and Equipment	1,163.2	1,142.5
Other Noncurrent Assets		
Goodwill	3,100.7	3,052.9
Other intangible assets net	3,076.2	3,089.4
Other noncurrent assets	143.6	151.8
Total Other Noncurrent Assets	6,320.5	6,294.1
Total Assets	$ 9,246.0	$ 9,031.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 261.6	$ 285.8
Accrued trade marketing and merchandising	71.4	57.4
Current portion of long-term debt	150.0	50.0
Revolving credit facility	207.0	
Other current liabilities	206.0	203.6
Total Current Liabilities	896.0	596.8
Noncurrent Liabilities		
Long-term debt	1,883.6	1,967.8
Deferred income taxes	999.8	987.2

Other noncurrent liabilities		298.7		331.2
Total Noncurrent Liabilities		3,182.1		3,286.2
Total Liabilities		4,078.1		3,883.0
Shareholders Equity				
Common shares		26.3		26.6
Additional capital		4,092.4		4,125.1
Retained income		1,133.2		1,075.5
Amount due from ESOP Trust		(1.0)		(1.8)
Accumulated other comprehensive loss		(83.0)		(76.6)
Total Shareholders Equity		5,167.9		5,148.8
Total Liabilities and Shareholders Equity	$	9,246.0	$	9,031.8

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Unaudited)

(Dollars in millions)	Six Months Ended October 31, 2013	2012
Operating Activities		
Net income	$ 280.0	$ 259.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	75.0	72.0
Depreciation restructuring and merger and integration	2.1	5.8
Amortization	49.2	48.4
Share-based compensation expense	12.3	10.5
Loss on sale of assets net	1.0	2.7
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(147.3)	(122.3)
Inventories	(74.5)	(14.6)
Accounts payable and accrued items	4.9	98.9
Defined benefit pension contributions	(3.0)	(7.6)
Accrued and prepaid taxes	(33.0)	(13.4)
Other net	1.3	19.5
Net Cash Provided by Operating Activities	168.0	359.6
Investing Activities		
Businesses acquired, net of cash acquired	(102.0)	
Additions to property, plant, and equipment	(83.4)	(98.5)
Proceeds from disposal of property, plant, and equipment	1.4	0.6
Other net	(8.9)	5.9
Net Cash Used for Investing Activities	(192.9)	(92.0)
Financing Activities		
Revolving credit facility net	207.0	
Quarterly dividends paid	(116.4)	(110.2)
Purchase of treasury shares	(165.5)	(175.3)
Proceeds from stock option exercises	0.3	0.8
Other net	(1.3)	(7.6)
Net Cash Used for Financing Activities	(75.9)	(292.3)
Effect of exchange rate changes on cash	(5.1)	(1.4)
Net decrease in cash and cash equivalents	(105.9)	(26.1)
Cash and cash equivalents at beginning of period	256.4	229.7
Cash and Cash Equivalents at End of Period	$ 150.5	$ 203.6

( ) 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 millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited condensed consolidated financial statements of The J. M. Smucker Company (Company, we, us, or our) have been prepared in accordance with U.S. generally accepted accounting principles 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 notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included.

Operating results for the six-month period ended October 31, 2013, are not necessarily indicative of the results that may be expected for the year ending April 30, 2014. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2013.

Note 2: Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 simplifies the guidance for testing impairment of indefinite-lived intangible assets by allowing the option to perform a qualitative test to assess the likelihood that the estimated fair value is less than the carrying amount. ASU 2012-02 is effective for the annual impairment test we perform after May 1, 2013. We do not anticipate that the adoption of ASU 2012-02 will change the process for our February 1, 2014 impairment test.

Note 3: Acquisitions

During the quarter, we completed two acquisitions for aggregate net cash consideration of $102.0. Enray Inc. (Enray), a leading manufacturer and marketer of premium organic, gluten-free ancient grain products, was acquired on August 20, 2013. Silocaf of New Orleans, Inc. (Silocaf), a strategic investment related to our green coffee supply chain, was acquired on September 5, 2013.

The purchase price for each business acquired was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The purchase price allocations include total intangible assets of $37.6 for both Enray and Silocaf. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, the excess was allocated to goodwill. Preliminary valuations resulted in Enray goodwill of $28.7, which was assigned to the International, Foodservice, and Natural Foods segment, and Silocaf goodwill of $22.0, which was assigned to the U.S. Retail Coffee segment, as detailed below.

	U.S. Retail Coffee	U.S. Retail Consumer Foods	International, Foodservice, and Natural Foods	Total
Balance at May 1, 2012	$ 1,720.3	$ 1,035.2	$ 299.1	$ 3,054.6
Other		(0.6)	(1.1)	(1.7)
Balance at April 30, 2013	$ 1,720.3	$ 1,034.6	$ 298.0	$ 3,052.9
Acquisitions	22.0		28.7	50.7
Other		(1.0)	(1.9)	(2.9)
Balance at October 31, 2013	**$ 1,742.3**	**$ 1,033.6**	**$ 324.8**	**$ 3,100.7**

The results of operations for both of the acquired businesses are included in the condensed consolidated financial statements from the date of the transaction and did not have a material impact on the quarter ended October 31, 2013, nor expected to materially affect results of operations for the year ending April 30, 2014.

Note 4: Restructuring

During 2010, we announced plans to restructure our coffee and fruit spreads operations as part of our ongoing efforts to enhance the long-term strength and profitability of our leading brands. Subsequent to 2010, we expanded our restructuring plans to include the Canadian pickle and condiments operations and the capacity expansion of our peanut and other nut butter businesses. We expect to incur restructuring costs of approximately $260.0 for all of our restructuring plans, of which $239.6 has been incurred through October 31, 2013. The majority of the remaining costs are anticipated to be recognized through 2015.

Upon completion, the overall restructuring plan will result in a reduction of approximately 850 full-time positions. As of October 31, 2013, approximately 80 percent of the 850 full-time positions have been reduced and the impacted facilities have been closed, except the Ste. Marie, Quebec facility, which is anticipated to close in the fourth quarter of 2014.

The following table summarizes the restructuring activity, including the liabilities recorded 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	$ 102.0	$ 67.0	$ 42.5	$ 39.0	$ 9.5	$ 260.0
Balance at May 1, 2012	$	$ 8.8	$	$	$	$ 8.8
Charge to expense	8.2	3.4	13.4	10.8	3.0	38.8
Cash payments		(4.5)	(13.4)	(10.8)	(3.0)	(31.7)
Noncash utilization	(8.2)					(8.2)
Balance at April 30, 2013	$	$ 7.7	$	$	$	$ 7.7
Charge to expense	1.7	2.5	3.9	3.4	0.5	12.0
Cash payments		(2.1)	(3.9)	(3.4)	(0.5)	(9.9)
Noncash utilization	(1.7)	(0.2)				(1.9)
Balance at October 31, 2013	$	$ 7.9	$	$	$	$ 7.9
Remaining expected restructuring charge	$ 0.4	$ 3.6	$ 5.6	$ 9.0	$ 1.8	$ 20.4

In the three and six months ended October 31, 2013, total restructuring charges of $6.8 and $12.0, respectively, were reported in the Condensed Statements of Consolidated Income. Of the total restructuring charges, $2.1 and $3.5 were reported in cost of products sold in the three and six months ended October 31, 2013, respectively, while the remaining charges were reported in other restructuring and merger and integration costs. In the three and six months ended October 31, 2012, total restructuring charges of $10.3 and $24.8, respectively, were reported in the Condensed Statements of Consolidated Income. Of the total restructuring charges, $2.0 and $5.6 were reported in cost of products sold in the three and six months ended October 31, 2012, respectively, while the remaining charges were reported in other restructuring and merger and integration costs. The restructuring costs classified as cost of products sold include plant start-up costs at the new facilities and long-lived asset charges for accelerated depreciation related to property, plant, and equipment that had been used at the affected production facilities prior to closure.

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.

Other costs include professional fees, costs related to closing the facilities, and miscellaneous expenditures associated with the restructuring initiative and are expensed as incurred.

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Note 5: Common Shares

The following table sets forth common share information.

	October 31, 2013	April 30, 2013
Common shares authorized	300,000,000	150,000,000
Common shares outstanding	105,138,908	106,486,935
Treasury shares	23,466,257	22,118,230

We repurchased 1.5 million common shares for $152.2 during the first quarter of 2014. During 2013, we repurchased 4.0 million common shares for $359.4. As of October 31, 2013, we had 3.4 million common shares remaining available for repurchase under our Board of Directors most recent authorization.

During the second quarter of 2014, our shareholders approved an amendment to our Amended Articles of Incorporation to increase the number of common shares authorized for issuance by the Company from 150.0 million common shares to 300.0 million common shares.

Note 6: Reportable Segments

We operate in one industry: the manufacturing and marketing of food products. We have three reportable segments: U.S. Retail Coffee, U.S. Retail Consumer Foods, and International, Foodservice, and Natural Foods. The U.S. Retail Coffee segment primarily represents the domestic sales of *Folgers®, Dunkin Donuts®, Millstone®, Café Bustelo®,* and *Café Pilon®* branded coffee; the U.S. Retail Consumer Foods segment primarily includes domestic sales of *Jif®, Smucker s®*, *Pillsbury®*, *Crisco®*, *Martha White®*, *Hungry Jack®*, and *Eagle Brand®* branded products; and the International, Foodservice, and Natural Foods segment is comprised of products distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (e.g., restaurants, lodging, schools and universities, health care operators), and health and natural foods stores and distributors.

Segment profit represents net sales, less direct and allocable operating expenses, and is consistent with the way in which we manage our segments. However, we do not represent that the segments, if operated independently, would report operating profit equal to the segment profit set forth below, as segment profit excludes certain operating expenses such as corporate administrative expenses.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
Net sales:				
U.S. Retail Coffee	$ 594.9	$ 622.5	$ 1,109.3	$ 1,143.3
U.S. Retail Consumer Foods	612.6	619.3	1,149.0	1,147.7
International, Foodservice, and Natural Foods	352.4	386.9	652.5	707.4
Total net sales	$ 1,559.9	$ 1,628.7	$ 2,910.8	$ 2,998.4
Segment profit:				
U.S. Retail Coffee	$ 180.6	$ 158.2	$ 326.6	$ 284.6
U.S. Retail Consumer Foods	99.2	111.1	195.6	218.9
International, Foodservice, and Natural Foods	47.4	58.2	90.8	98.9
Total segment profit	$ 327.2	$ 327.5	$ 613.0	$ 602.4
Interest expense net	(20.5)	(23.9)	(44.3)	(47.5)
Cost of products sold restructuring and merger and integration	(2.3)	(2.4)	(3.8)	(6.4)
Other restructuring and merger and integration costs	(6.9)	(11.5)	(12.7)	(28.7)
Other special project costs				(6.7)
Corporate administrative expenses	(67.2)	(66.0)	(132.4)	(122.5)
Other (expense) income net	(0.3)	0.5	(0.3)	0.9

Income before income taxes	$ 230.0	$ 224.2	$ 419.5	$ 391.5

Note 7: Debt and Financing Arrangements

Long-term debt consists of the following:

	October 31, 2013	April 30, 2013
4.78% Senior Notes due June 1, 2014	$ 100.0	$ 100.0
6.12% Senior Notes due November 1, 2015	24.0	24.0
6.63% Senior Notes due November 1, 2018	393.5	395.0
3.50% Senior Notes due October 15, 2021	766.1	748.8
5.55% Senior Notes due April 1, 2022	350.0	350.0
4.50% Senior Notes due June 1, 2025	400.0	400.0
Total long-term debt	$ 2,033.6	$ 2,017.8
Current portion of long-term debt	150.0	50.0
Total long-term debt, less current portion	$ 1,883.6	$ 1,967.8

The 3.50 percent Senior Notes were issued in a public offering and the remaining Senior Notes were privately placed. The Senior Notes are unsecured and interest is paid semiannually. Scheduled payments are required on the 5.55 percent Senior Notes, of which $50.0 is due on April 1, 2014, and on the 4.50 percent Senior Notes, the first of which is $100.0 due on June 1, 2020. The $100.0 balance of the 4.78 percent Senior Notes is due on June 1, 2014. We may prepay at any time all or part of the Senior Notes at 100 percent of the principal amount thereof, together with accrued and unpaid interest, and any applicable make-whole amount.

Interest paid totaled $22.8 and $26.7 for the three months ended October 31, 2013 and 2012, respectively, and $45.2 and $48.9 for the six months ended October 31, 2013 and 2012, respectively. This differs from interest expense due to the timing of payments, amortization of fair value adjustments, amortization of debt issue costs, and interest capitalized.

In the second quarter of 2014, we entered into an interest rate swap, with a notional amount of $750.0, on the 3.50 percent Senior Notes due October 15, 2021, converting the Senior Notes from a fixed to a variable rate basis. The interest rate swap was designated as a fair value hedge of the underlying debt obligation. At October 31, 2013, a net gain from changes in the fair value of the interest rate swap of $17.2 was recognized in interest expense with a corresponding offset due to changes in the fair value of the hedged underlying debt, resulting in no net impact to interest expense. For additional information, see Note 11: Derivative Financial Instruments.

On September 6, 2013, we entered into an amended and restated credit agreement with a group of eleven banks. The credit facility, which amends and restates our $1.0 billion credit agreement dated as of July 29, 2011, provides for a revolving credit line of $1.5 billion and extends the maturity to September 6, 2018. Borrowings under the revolving credit facility bear interest based on the prevailing U.S. Prime Rate, Canadian Base Rate, London Interbank Offered Rate (LIBOR), or Canadian Dealer Offered Rate, based on our election. Interest is payable either on a quarterly basis or at the end of the borrowing term. At October 31, 2013, we had a balance outstanding under the revolving credit facility of $207.0 at a weighted-average interest rate of 1.10 percent.

Our debt instruments contain certain financial covenant restrictions including consolidated net worth, a leverage ratio, and an interest coverage ratio. We are in compliance with all covenants.

Note 8: Earnings per Share

The following table sets forth the computation of net income per common share and net income per common share assuming dilution under the two-class method.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
Net income	$ 153.4	$ 148.8	$ 280.0	$ 259.7
Net income allocated to participating securities	1.2	1.2	2.3	2.2
Net income allocated to common stockholders	$ 152.2	$ 147.6	$ 277.7	$ 257.5
Weighted-average common shares outstanding	104,311,146	108,269,499	104,694,335	108,844,046
Dilutive effect of stock options	15,251	26,600	16,003	28,068
Weighted-average common shares outstanding assuming dilution	104,326,397	108,296,099	104,710,338	108,872,114
Net income per common share	$ 1.46	$ 1.36	$ 2.65	$ 2.37
Net income per common share assuming dilution	$ 1.46	$ 1.36	$ 2.65	$ 2.36

Note 9: Pensions and Other Postretirement Benefits

The components of our net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below.

	Three Months Ended October 31,			
	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2013	2012	2013	2012
Service cost	$ 2.2	$ 2.3	$ 0.5	$ 0.5
Interest cost	5.6	6.0	0.5	0.8
Expected return on plan assets	(6.4)	(6.3)		
Recognized net actuarial loss	3.3	3.2		
Other	0.3	0.3	(0.2)	(0.1)
Net periodic benefit cost	$ 5.0	$ 5.5	$ 0.8	$ 1.2

	Six Months Ended October 31,			
	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2013	2012	2013	2012
Service cost	$ 4.4	$ 4.6	$ 1.1	$ 1.2
Interest cost	11.0	12.0	1.1	1.5
Expected return on plan assets	(12.8)	(12.6)		
Recognized net actuarial loss	6.6	6.6		
Settlement loss		6.7		
Other	0.6	0.5	(0.5)	(0.1)
Net periodic benefit cost	$ 9.8	$ 17.8	$ 1.7	$ 2.6

Note 10: Contingencies

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

Note 11: Derivative Financial Instruments

We are exposed to market risks, such as changes in commodity prices, foreign currency exchange rates, and interest rates. To manage the volatility related to these exposures, we enter into various derivative transactions. We have policies in place that define acceptable instrument types we may enter into and establish controls to limit our market risk exposure.

Commodity Price Management: We enter 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 key raw materials, notably green coffee, edible oils, and flour. We also enter into commodity futures and options contracts 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 meet the hedge accounting criteria 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 accumulated other comprehensive loss to the extent effective, and reclassified to cost of products sold in the period during which the hedged transaction affects earnings. Cash flows related to qualifying hedges are classified consistently with the cash flows from the hedged item in the Condensed Statements of Consolidated Cash Flows. 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 and assessed at inception and on a monthly basis. The realized and unrealized mark-to-market gains or losses on nonqualifying and ineffective portions of commodity hedges are recognized in cost of products sold immediately.

The commodities hedged have a high inverse correlation to price changes of the derivative commodity instrument; thus, we would expect that any gain or loss in the estimated fair value of the derivatives would generally be offset by an increase or decrease in the estimated fair value of the underlying exposures.

Foreign Currency Exchange Rate Hedging: We utilize 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 in Canada. The contracts generally have maturities of less than one year. At the inception of the contract, the derivative is evaluated and documented for hedge accounting treatment. 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. 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 accumulated other comprehensive loss. These deferred gains or losses are reclassified to earnings in the period in which the hedged transaction affects earnings. The ineffective portion of these contracts is immediately recognized in earnings.

Interest Rate Hedging: We utilize derivative instruments to manage changes in the fair value and cash flows of our debt. Interest rate swaps mitigate the risk associated with the underlying hedged item. At the inception of the contract, the instrument is evaluated and documented for hedge accounting treatment. If the contract is designated as a cash flow hedge, the mark-to-market gains or losses on the swap are deferred and included as a component of accumulated other comprehensive loss to the extent effective, and reclassified to interest expense in the period during which the hedged transaction affects earnings. If the contract is designated as a fair value hedge, the interest rate swap would be recognized at fair value on the balance sheet and changes in the fair value would be recognized in interest expense. Generally, gains and losses recognized on the instrument have no net impact to earnings as the change in the fair value of the derivative is equal to the change in the fair value of the underlying debt.

During the second quarter of 2014, we entered into an interest rate swap on the 3.50 percent Senior Notes due October 15, 2021, which was designated as a fair value hedge and used to hedge against the changes in the fair value of the debt. We receive cash flows from the counterparty at a fixed rate and pay the counterparty variable rates based on the LIBOR. The interest rate swap was recognized at fair value in the Condensed

Consolidated Balance Sheet at October 31, 2013, and changes in the fair value were recognized in interest expense. The net gain of $17.2 recognized on the derivative instrument during the second quarter had no net impact to earnings, as the change in the fair value of the derivative was equal to the change in fair value of the underlying debt. There were no interest rate swaps outstanding at April 30, 2013.

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

	October 31, 2013			April 30, 2013	
	Other Current Assets	Other Current Liabilities	Other Noncurrent Liabilities	Other Current Assets	Other Current Liabilities
Derivatives designated as hedging instruments:					
Interest rate contract	$ 18.2	$	$ 1.0	$	$
Commodity contracts	1.0	3.8		2.1	2.0
Total derivatives designated as hedging instruments	$ 19.2	$ 3.8	$ 1.0	$ 2.1	$ 2.0
Derivatives not designated as hedging instruments:					
Commodity contracts	$ 5.4	$ 4.6	$	$ 3.6	$ 2.3
Foreign currency exchange contracts	0.8	0.2		0.7	0.2
Total derivatives not designated as hedging instruments	$ 6.2	$ 4.8	$	$ 4.3	$ 2.5
Total derivative instruments	$ 25.4	$ 8.6	$ 1.0	$ 6.4	$ 4.5

During the first quarter of 2014, we adopted FASB ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, as clarified by ASU 2013-01, *Scope Clarification of Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11, as clarified by ASU 2013-01, requires additional disclosures around netting of derivatives. We have elected to not offset fair value amounts recognized for our exchange-traded commodity derivative instruments and our cash margin accounts executed with the same counterparty that are generally subject to enforceable netting agreements. We are required to maintain cash margin accounts in connection with funding the settlement of our open positions. At October 31, 2013 and April 30, 2013, we maintained cash margin account balances of $7.2 and $5.5, respectively, included in other current assets in the Condensed Consolidated Balance Sheets. In the event of default and immediate net settlement of all of our open positions with individual counterparties, all of our derivative liabilities would be fully offset by either our derivative asset positions or margin accounts based on the net asset or liability position with our individual counterparties.

The following table presents information on pre-tax commodity contract gains and losses recognized on derivatives designated as cash flow hedges.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
Losses recognized in other comprehensive (loss) income (effective portion)	$ (4.6)	$ (13.1)	$ (10.6)	$ (15.3)
Losses reclassified from accumulated other comprehensive loss to cost of products sold (effective portion)	(3.9)	(12.5)	(12.7)	(19.0)
Change in accumulated other comprehensive loss	$ (0.7)	$ (0.6)	$ 2.1	$ 3.7
Gains (losses) recognized in cost of products sold (ineffective portion)	$ 0.1	$ (0.1)	$ 0.1	$ (0.2)

Included as a component of accumulated other comprehensive loss at October 31, 2013 and April 30, 2013, were deferred pre-tax losses of $10.0 and $12.2, respectively, related to commodity contracts. The related tax impact recognized in accumulated other comprehensive loss was a benefit of $3.7 and $4.4 at October 31, 2013 and April 30, 2013, respectively. The entire amount of the deferred loss included in accumulated other comprehensive loss at October 31, 2013, is expected to be recognized in earnings within one year as the related commodities are sold.

Included as a component of accumulated other comprehensive loss at October 31, 2013 and April 30, 2013, were deferred pre-tax losses of $5.1 and $5.4, respectively, related to the termination of a prior interest rate swap in October 2011 on the 3.50 percent Senior Notes due October 15, 2021. The related tax benefit recognized in accumulated other comprehensive loss was $1.8 and $1.9 at October 31, 2013 and April 30, 2013, respectively. Approximately $0.6 of the pre-tax loss will be recognized over the next 12 months.

We reclassified $0.2 of the loss recognized on the interest rate swap designated as a cash flow hedge from other comprehensive loss to interest expense during the three months ended October 31, 2013 and 2012, respectively, and $0.3 during the six months ended October 31, 2013 and 2012, respectively.

The following table presents the net gains and losses recognized in cost of products sold on derivatives not designated as qualified hedging instruments.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
Unrealized (losses) gains on commodity contracts	$ (1.5)	$ (11.2)	$ 3.0	$ 8.4
Unrealized gains on foreign currency exchange contracts		0.9	0.1	1.0
Total unrealized (losses) gains recognized in cost of products sold	$ (1.5)	$ (10.3)	$ 3.1	$ 9.4
Realized gains (losses) on commodity contracts	$ 0.3	$ 7.2	$ (6.1)	$ (0.6)
Realized gains (losses) on foreign currency exchange contracts	0.8	(0.3)	1.8	(0.2)
Total realized gains (losses) recognized in cost of products sold	$ 1.1	$ 6.9	$ (4.3)	$ (0.8)
Total (losses) gains recognized in cost of products sold	$ (0.4)	$ (3.4)	$ (1.2)	$ 8.6

The following table presents the gross contract notional value of outstanding derivative contracts.

	October 31, 2013	April 30, 2013
Commodity contracts	$ 324.5	$ 347.6
Foreign currency exchange contracts	63.0	56.8
Interest rate contract	750.0	

Note 12: Other Financial Instruments and Fair Value Measurements

Financial instruments, other than derivatives, that potentially subject us to significant concentrations of credit risk consist principally of cash investments and trade receivables. The carrying value of these financial instruments approximates fair value. Our other financial instruments, with the exception of long-term debt, are recognized at estimated fair value in the Condensed Consolidated Balance Sheets.

The following table provides information on the carrying amounts and fair values of our financial instruments.

	October 31, 2013		April 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other investments	$ 52.2	$ 52.2	$ 48.8	$ 48.8
Derivative financial instruments net	15.8	15.8	1.9	1.9
Long-term debt	(2,033.6)	(2,290.5)	(2,017.8)	(2,388.1)

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 our market assumptions.

The following tables summarize the fair values and the levels within the fair value hierarchy in which the fair value measurements fall for our financial instruments.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at October 31, 2013
Other investments: [A]				
Equity mutual funds	$ 22.7	$	$	$ 22.7
Municipal obligations		28.7		28.7
Other investments	0.8			0.8
Derivatives: [B]				
Commodity contracts net	(1.7)	(0.3)		(2.0)
Foreign currency exchange contracts net	0.1	0.5		0.6
Interest rate contract net		17.2		17.2
Long-term debt [C]	(757.5)	(1,533.0)		(2,290.5)
Total financial instruments measured at fair value	$ (735.6)	$ (1,486.9)	$	$ (2,222.5)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at April 30, 2013
Other investments: [A]				
Equity mutual funds	$ 21.6	$	$	$ 21.6
Municipal obligations		26.6		26.6
Other investments	0.6			0.6
Derivatives: [B]				
Commodity contracts net	0.7	0.7		1.4
Foreign currency exchange contracts net		0.5		0.5
Long-term debt [C]	(803.6)	(1,584.5)		(2,388.1)
Total financial instruments measured at fair value	$ (780.7)	$ (1,556.7)	$	$ (2,337.4)

(A) Other investments consist of funds maintained for the payment of benefits associated with nonqualified retirement plans. The funds include Level 1 equity securities listed in active markets and Level 2 municipal obligations valued by a third party using valuation techniques that utilize inputs which are derived principally from or corroborated by observable market data. As of October 31, 2013, our municipal obligations are scheduled to mature as follows: $0.9 in 2014, $2.1 in 2015, $0.5 in 2016, $1.8 in 2017, and $23.4 in 2018 and beyond.

(B) Level 1 commodity contract derivatives are valued using quoted market prices for identical instruments in active markets. Level 2 commodity contract and foreign exchange contract derivatives are valued using quoted prices for similar assets or liabilities in active markets. The Level 2 interest rate contract derivative is valued using the income approach, observable Level 2 market expectations at the measurement date, and standard valuation techniques to convert future amounts to a single discounted present value. Level 2 inputs for the interest rate contract are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. For additional information, see Note 11: Derivative Financial Instruments.

(C) Long-term debt is comprised of public Senior Notes classified as Level 1 and private Senior Notes classified as Level 2. The public Senior Notes are traded in an active secondary market and valued using quoted prices. The value of the private Senior Notes is based on the net present value of each interest and principal payment calculated utilizing an interest rate derived from a fair market yield curve.

Note 13: Income Taxes

During the three-month and six-month period ended October 31, 2013, 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 12 months, it is reasonably possible that we could decrease our unrecognized tax benefits by an additional $3.9, primarily as a result of expiring statute of limitations periods.

Note 14: Accumulated Other Comprehensive Loss

On May 1, 2013, we adopted FASB ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. In accordance with ASU 2013-02, the components of accumulated other comprehensive loss, including the reclassification adjustments for items that are reclassified from accumulated other comprehensive loss to net income are shown below.

	Foreign Currency Translation Adjustment	Pension and Other Postretirement Liabilities [A]	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized (Loss) Gain on Cash Flow Hedging Derivatives [B]	Accumulated Other Comprehensive Loss
Balance at May 1, 2013	$ 61.5	$ (131.4)	$ 4.5	$ (11.2)	$ (76.6)
Reclassification adjustments		6.0		13.0	19.0
Current period (charge) credit	(10.6)	(2.2)	0.2	(10.6)	(23.2)
Income tax expense		(1.3)	(0.1)	(0.8)	(2.2)
Balance at October 31, 2013	**$ 50.9**	**$ (128.9)**	**$ 4.6**	**$ (9.6)**	**$ (83.0)**

(A) Amortization of net losses was reclassified from accumulated other comprehensive loss to selling, distribution, and administrative expenses.

(B) Of the total losses reclassified from accumulated other comprehensive loss, $12.7 was reclassified to cost of products sold related to commodity derivatives and $0.3 was reclassified to interest expense related to the interest rate swap.

Note 15: Guarantor and Non-Guarantor Financial Information

Our 3.50 percent Senior Notes due October 15, 2021, are fully and unconditionally guaranteed, on a joint and several basis, by: J.M. Smucker LLC and The Folgers Coffee Company (the subsidiary guarantors), which are 100 percent wholly-owned subsidiaries of the Company. A subsidiary guarantor will be released from its obligations under the indenture governing the notes (a) if we exercise our legal or covenant defeasance option or if our obligations under the indenture are discharged in accordance with the terms of the indenture or (b) upon delivery of an officer s certificate to the trustee that the subsidiary guarantor does not guarantee our obligations under any of our other primary senior indebtedness and that any other guarantees of such primary senior indebtedness of the subsidiary guarantor have been released other than through discharges as a result of payment by such guarantor on such guarantees.

Condensed consolidated financial information for the Company, the subsidiary guarantors, and the non-guarantor subsidiaries is provided below. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, including transactions with our 100 percent wholly-owned subsidiary guarantors and non-guarantor subsidiaries. We have accounted for investments in subsidiaries using the equity method.

CONDENSED STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

	Three Months Ended October 31, 2013				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 852.6	$ 377.5	$ 1,855.2	$ (1,525.4)	$ 1,559.9
Cost of products sold	692.6	345.8	1,487.0	(1,518.1)	1,007.3
Gross Profit	160.0	31.7	368.2	(7.3)	552.6
Selling, distribution, and administrative expenses, restructuring, and merger and integration costs	55.4	12.4	209.4		277.2
Amortization	1.0		23.7		24.7
Other operating (income) expense net	0.1	0.3	(0.5)		(0.1)
Operating Income	103.5	19.0	135.6	(7.3)	250.8
Interest (expense) income net	(20.4)	0.3	(0.4)		(20.5)
Other expense net		(0.3)			(0.3)
Equity in net earnings of subsidiaries	95.5	39.3	18.7	(153.5)	
Income Before Income Taxes	178.6	58.3	153.9	(160.8)	230.0
Income taxes	25.2	0.1	51.3		76.6
Net Income	$ 153.4	$ 58.2	$ 102.6	$ (160.8)	$ 153.4
Other comprehensive (loss) income, net of tax	(3.7)	3.2	(4.6)	1.4	(3.7)
Comprehensive Income	$ 149.7	$ 61.4	$ 98.0	$ (159.4)	$ 149.7

CONDENSED STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

	Three Months Ended October 31, 2012				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 834.5	$ 358.2	$ 1,537.8	$ (1,101.8)	$ 1,628.7
Cost of products sold	694.2	330.1	1,164.7	(1,102.2)	1,086.8
Gross Profit	140.3	28.1	373.1	0.4	541.9
Selling, distribution, and administrative expenses, restructuring, and merger and integration costs	59.1	10.8	198.8		268.7
Amortization	3.0		21.2		24.2
Other operating (income) expense net		(0.8)	2.2		1.4
Operating Income	78.2	18.1	150.9	0.4	247.6
Interest (expense) income net	(24.1)	0.3	(0.1)		(23.9)
Other income (expense) net	5.0	0.2	(4.7)		0.5
Equity in net earnings of subsidiaries	109.8	40.2	18.2	(168.2)	
Income Before Income Taxes	168.9	58.8	164.3	(167.8)	224.2
Income taxes	20.1	0.1	55.2		75.4
Net Income	$ 148.8	$ 58.7	$ 109.1	$ (167.8)	$ 148.8
Other comprehensive income (loss), net of tax	4.2	(0.7)	2.1	(1.4)	4.2

Comprehensive Income	$ 153.0	$ 58.0	$ 111.2	$ (169.2)	$ 153.0

CONDENSED STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

	Six Months Ended October 31, 2013				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 1,588.6	$ 680.9	$ 3,448.6	$ (2,807.3)	$ 2,910.8
Cost of products sold	1,293.0	623.2	2,744.9	(2,795.8)	1,865.3
Gross Profit	295.6	57.7	703.7	(11.5)	1,045.5
Selling, distribution, and administrative expenses, restructuring, and merger and integration costs	104.0	23.3	405.9		533.2
Amortization	2.1		47.1		49.2
Other operating (income) expense net	(1.4)	0.1	0.3		(1.0)
Operating Income	190.9	34.3	250.4	(11.5)	464.1
Interest (expense) income net	(44.4)	0.6	(0.5)		(44.3)
Other expense net		(0.2)	(0.1)		(0.3)
Equity in net earnings of subsidiaries	178.1	72.2	34.1	(284.4)	
Income Before Income Taxes	324.6	106.9	283.9	(295.9)	419.5
Income taxes	44.6	0.2	94.7		139.5
Net Income	$ 280.0	$ 106.7	$ 189.2	$ (295.9)	$ 280.0
Other comprehensive (loss) income, net of tax	(6.4)	5.1	(8.5)	3.4	(6.4)
Comprehensive Income	$ 273.6	$ 111.8	$ 180.7	$ (292.5)	$ 273.6

CONDENSED STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME

	Six Months Ended October 31, 2012				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 1,537.0	$ 676.4	$ 2,847.0	$ (2,062.0)	$ 2,998.4
Cost of products sold	1,287.2	620.9	2,138.3	(2,059.7)	1,986.7
Gross Profit	249.8	55.5	708.7	(2.3)	1,011.7
Selling, distribution, and administrative expenses, restructuring, merger and integration, and other special project costs	116.0	22.7	386.1		524.8
Amortization	5.9		42.5		48.4
Other operating (income) expense net	(0.7)	(1.3)	2.4		0.4
Operating Income	128.6	34.1	277.7	(2.3)	438.1
Interest (expense) income net	(47.9)	0.6	(0.2)		(47.5)
Other income (expense) net	9.5	0.7	(9.3)		0.9
Equity in net earnings of subsidiaries	199.1	73.4	34.7	(307.2)	
Income Before Income Taxes	289.3	108.8	302.9	(309.5)	391.5
Income taxes	29.6	0.2	102.0		131.8
Net Income	$ 259.7	$ 108.6	$ 200.9	$ (309.5)	$ 259.7
Other comprehensive income (loss), net of tax	3.8	1.6	(0.4)	(1.2)	3.8
Comprehensive Income	$ 263.5	$ 110.2	$ 200.5	$ (310.7)	$ 263.5

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2013				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 5.5	$	$ 145.0	$	$ 150.5
Inventories		224.2	811.0	(11.5)	1,023.7
Other current assets	466.6	4.9	116.6		588.1
Total Current Assets	472.1	229.1	1,072.6	(11.5)	1,762.3
Property, Plant, and Equipment Net	228.8	462.7	471.7		1,163.2
Investments in Subsidiaries	8,286.8	4,013.4	181.6	(12,481.8)	
Intercompany	(2,668.9)	265.1	918.3	1,485.5	
Other Noncurrent Assets					
Goodwill	1,082.0		2,018.7		3,100.7
Other intangible assets net	507.7		2,568.5		3,076.2
Other noncurrent assets	69.1	12.7	61.8		143.6
Total Other Noncurrent Assets	1,658.8	12.7	4,649.0		6,320.5
Total Assets	$ 7,977.6	$ 4,983.0	$ 7,293.2	$ (11,007.8)	$ 9,246.0
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities	$ 602.3	$ 102.4	$ 191.3	$	$ 896.0
Noncurrent Liabilities					
Long-term debt	1,883.6				1,883.6
Deferred income taxes	90.2		909.6		999.8
Other noncurrent liabilities	233.6	18.2	46.9		298.7
Total Noncurrent Liabilities	2,207.4	18.2	956.5		3,182.1
Total Liabilities	2,809.7	120.6	1,147.8		4,078.1
Total Shareholders Equity	5,167.9	4,862.4	6,145.4		