

SMUCKER J M CO  
Form 10-Q  
March 09, 2007

**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 January 31, 2007**

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

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 56,618,947 common shares outstanding on February 28, 2007.

The Exhibit Index is located at Page No. 26.

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

|  | Three Months Ended<br>January 31,             |            | Nine Months Ended<br>January 31, |              |
|--|---|------------|----------------------------------|--------------|
|  | 2007  | 2006       | 2007                             | 2006         |
|  | (Dollars in thousands, except per share data) |            |                                  |              |
| Net sales  | \$ 523,081                                    | \$ 536,453 | \$ 1,654,545                     | \$ 1,653,048 |
| Cost of products sold                              | 349,425                                       | 371,981    | 1,122,412                        | 1,120,193    |
| Cost of products sold restructuring                | 689   | 618        | 9,981                            | 865          |
| Gross Profit                                       | 172,967                                       | 163,854    | 522,152                          | 531,990      |
| Selling, distribution, and administrative expenses | 108,789                                       | 103,610    | 333,274                          | 334,259      |
| Other restructuring (credits) costs                | (199)   | 4,783      | 1,337                            | 8,248        |
| Merger and integration costs                       |   | 7,764      |                                  | 14,784       |
| Operating Income                                   | 64,377  | 47,697     | 187,541                          | 174,699      |
| Interest income                                    | 2,629   | 1,709      | 6,625                            | 4,858        |
| Interest expense                                   | (5,656)                                       | (5,984)    | (17,681)                         | (18,116)     |
| Other (expense) income net                         | (902)   | 6,150      | (1,210)                          | 6,269        |
| Income Before Income Taxes                         | 60,448  | 49,572     | 175,275                          | 167,710      |
| Income taxes                                       | 20,021  | 18,260     | 60,555                           | 60,057       |
| Net Income   | \$ 40,427                                     | \$ 31,312  | \$ 114,720                       | \$ 107,653   |

Earnings per common share:

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|                                     |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|
| Net Income                          | \$ 0.72 | \$ 0.54 | \$ 2.03 | \$ 1.85 |
| Net Income Assuming Dilution        | \$ 0.71 | \$ 0.54 | \$ 2.01 | \$ 1.83 |
| Dividends declared per common share | \$ 0.28 | \$ 0.27 | \$ 0.84 | \$ 0.81 |

See notes to unaudited condensed consolidated financial statements.

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

|   | January 31,<br>2007    | April 30, 2006 |
|---|------------------------|----------------|
|   | (Dollars in thousands) |                |
| <b>ASSETS</b>                               |                        |                |
| <b>CURRENT ASSETS</b>                       |                        |                |
| Cash and cash equivalents                   | \$ 152,168             | \$ 71,956      |
| Marketable securities                       |                        | 14,882         |
| Trade receivables, less allowances          | 117,619                | 148,014        |
| Inventories:                                |                        |                |
| Finished products                           | 181,485                | 190,302        |
| Raw materials                               | 95,804                 | 88,786         |
|   | 277,289                | 279,088        |
| Assets held for sale                        |                        | 90,250         |
| Other current assets                        | 34,850                 | 38,648         |
| Total Current Assets                        | 581,926                | 642,838        |
| <b>PROPERTY, PLANT, AND EQUIPMENT</b>       |                        |                |
| Land and land improvements                  | 41,215                 | 38,165         |
| Buildings and fixtures                      | 173,384                | 170,057        |
| Machinery and equipment                     | 527,259                | 513,593        |
| Construction in progress                    | 23,543                 | 19,923         |
|   | 765,401                | 741,738        |
| Accumulated depreciation                    | (312,127)              | (285,184)      |
| Total Property, Plant, and Equipment        | 453,274                | 456,554        |
| <b>OTHER NONCURRENT ASSETS</b>              |                        |                |
| Goodwill                                    | 988,797                | 940,967        |
| Other intangible assets, net                | 476,720                | 472,915        |
| Marketable securities                       | 46,984                 | 34,107         |
| Other assets                                | 108,177                | 102,363        |
| Total Other Noncurrent Assets               | 1,620,678              | 1,550,352      |
|   | \$ 2,655,878           | \$ 2,649,744   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                        |                |
| <b>CURRENT LIABILITIES</b>                  |                        |                |
| Accounts payable                            | \$ 80,619              | \$ 88,963      |
| Notes payable                               |                        | 28,620         |
| Current portion of long-term debt           | 33,000                 |                |
| Other current liabilities                   | 133,876                | 117,857        |

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|  |              |              |
|--|--------------|--------------|
| Total Current Liabilities              | 247,495      | 235,440      |
| NONCURRENT LIABILITIES                 |              |              |
| Long-term debt                         | 393,383      | 428,602      |
| Deferred income taxes                  | 150,632      | 155,579      |
| Other noncurrent liabilities           | 108,977      | 102,064      |
| Total Noncurrent Liabilities           | 652,992      | 686,245      |
| SHAREHOLDERS' EQUITY                   |              |              |
| Common shares                          | 14,140       | 14,237       |
| Additional capital                     | 1,204,664    | 1,212,598    |
| Retained income                        | 528,180      | 489,067      |
| Less:                                  |              |              |
| Deferred compensation                  |              | (8,527)      |
| Amount due from ESOP                   | (6,017)      | (6,525)      |
| Accumulated other comprehensive income | 14,424       | 27,209       |
| Total Shareholders' Equity             | 1,755,391    | 1,728,059    |
|  | \$ 2,655,878 | \$ 2,649,744 |

See notes to unaudited condensed consolidated financial statements.

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

|   | Nine Months Ended January<br>31, |            |
|---|----------------------------------|------------|
|   | 2007                             | 2006       |
|   | (Dollars in thousands)           |            |
| <b>OPERATING ACTIVITIES</b>   |                                  |            |
| Net income  | \$ 114,720                       | \$ 107,653 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |            |
| Depreciation  | 42,387                           | 47,133     |
| Amortization  | 1,186                            | 74         |
| Asset impairments and other restructuring charges                                 | 10,089                           | 865        |
| Share-based compensation expense  | 8,282                            | 5,889      |
| Gain on the sale of assets  |                                  | (5,638)    |
| Change in assets and liabilities, net of effect from businesses acquired:         |                                  |            |
| Trade receivables   | 29,668                           | 26,133     |
| Inventories   | (1,864)                          | (30,316)   |
| Accounts payable and accrued items  | (8,040)                          | (63,415)   |
| Other adjustments   | 15,614                           | 36,202     |
| Net cash provided by operating activities   | 212,042                          | 124,580    |
| <b>INVESTING ACTIVITIES</b>   |                                  |            |
| Businesses acquired   | (60,488)                         |            |
| Proceeds from sale of business  | 84,054                           | 8,754      |
| Additions to property, plant, and equipment                                       | (42,903)                         | (42,715)   |
| Purchase of marketable securities   | (20,000)                         | (5,000)    |
| Sale and maturities of marketable securities                                      | 23,195                           | 28,908     |
| Disposals of property, plant, and equipment                                       | 882                              | 1,804      |
| Other net   | (1,826)                          | 7,609      |
| Net cash used for investing activities  | (17,086)                         | (640)      |
| <b>FINANCING ACTIVITIES</b>   |                                  |            |
| Repayments of long-term debt  |                                  | (17,000)   |
| Revolving credit arrangements net   | (28,310)                         | 835        |
| Dividends paid  | (47,820)                         | (47,044)   |
| Purchase of treasury shares   | (51,943)                         | (30,122)   |
| Other net   | 16,655                           | 793        |
| Net cash used for financing activities  | (111,418)                        | (92,538)   |
| Effect of exchange rate changes   | (3,326)                          | (241)      |
| Net increase in cash and cash equivalents   | 80,212                           | 31,161     |
| Cash and cash equivalents at beginning of period                                  | 71,956                           | 58,085     |

|  |            |           |
|--|------------|-----------|
| Cash and cash equivalents at end of period | \$ 152,168 | \$ 89,246 |
|--|------------|-----------|

( ) Denotes use of cash

See notes to unaudited condensed consolidated financial statements.



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 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 footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended January 31, 2007, are not necessarily indicative of the results that may be expected for the year ending April 30, 2007. 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, 2006.

**Note B Share-Based Payments**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payments* (SFAS 123R). SFAS 123R is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and also amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. SFAS 123R requires that the cost of transactions involving share-based payments be recognized in the financial statements based on a fair value-based measurement. The Company adopted SFAS 123R on May 1, 2006, using the modified prospective method. Under this method of adoption, prior year's financial information was not restated. Prior to the adoption of SFAS 123R, the Company accounted for share-based payments to employees using the intrinsic value method of APB 25. Under APB 25, because the exercise price of the Company's employee stock options equaled the market price of the underlying shares on the date of grant, no compensation expense was recognized. Compensation expense recognized related to other share-based awards was \$2,596 and \$1,348 for the three months ended January 31, 2007 and 2006, and \$7,862 and \$5,889 for the nine months ended January 31, 2007 and 2006, respectively. The related tax benefit recognized in the Condensed Statements of Consolidated Income was \$857 and \$500 for the three months ended January 31, 2007 and 2006, and \$2,716 and \$2,108 for the nine months ended January 31, 2007 and 2006, respectively. Compensation expense recognized related to the grant of deferred share units to nonemployee directors was \$420 for the nine months ended January 31, 2007. The related tax benefit recognized in the Condensed Statements of Consolidated Income was \$145 for the nine months ended January 31, 2007. No compensation expense was capitalized related to share-based awards during the nine months ended January 31, 2007 or 2006. As a result of adopting SFAS 123R on May 1, 2006, the Company's income before income taxes and net income were \$549 and \$367 lower for the three months ended January 31, 2007, and \$1,474 and \$965 lower for the nine months ended January 31, 2007, respectively, than if it had continued to account for share-based compensation under APB 25. The impact of adopting SFAS 123R for the nine months ended January 31, 2007, was approximately \$0.02 on both earnings per common share and earnings per common share assuming dilution.

Had the Company applied the fair value recognition provisions of SFAS 123 to share-based compensation for the three months and nine months ended January 31, 2006, the effect on net income and earnings per common share would have been as follows:

|   | Three<br>Months<br>Ended January 31, 2006 | Nine Months<br>Ended January 31, 2006 |
|---|---|---------------------------------------|
| Net income, as reported   | \$31,312                                  | \$107,653                             |
| Add: Total share-based compensation expense included in the determination of net income as reported, net of tax benefit                     | 848                                       | 3,781                                 |
| Less: Total share-based compensation expense determined under fair value-based methods for all awards, net of tax benefit                   | (1,408)                                   | (5,790)                               |
| Net income, as adjusted   | \$30,752                                  | \$105,644                             |
| Earnings per common share:  |   |                                       |
| Net income, as reported   | \$ 0.54                                   | \$ 1.85                               |
| Add: Total share-based compensation expense included in the determination of net income as reported, net of tax benefit                     | 0.01                                      | 0.07                                  |
| Less: Total share-based compensation expense determined under fair value-based methods for all awards, net of tax benefit                   | (0.02)                                    | (0.10)                                |
| Net income, as adjusted   | \$ 0.53                                   | \$ 1.82                               |
|   |   |                                       |
| Net income, as reported assuming dilution   | \$ 0.54                                   | \$ 1.83                               |
| Add: Total share-based compensation expense included in the determination of net income as reported, net of tax benefit assuming dilution   | 0.01                                      | 0.07                                  |
| Less: Total share-based compensation expense determined under fair value-based methods for all awards, net of tax benefit assuming dilution | (0.02)                                    | (0.10)                                |
| Net income, as adjusted assuming dilution   | \$ 0.53                                   | \$ 1.80                               |

As of January 31, 2007, total compensation cost related to nonvested share-based awards not yet recognized was approximately \$15,459. The weighted-average period over which this amount is expected to be recognized is approximately 3.1 years.

SFAS 123R also provides that any corporate income tax benefit realized upon exercise or vesting of an award in excess of that previously recognized in earnings, referred to as an excess tax benefit, will be

presented in the Condensed Statement of Consolidated Cash Flows as a financing activity, rather than an operating activity. Realized excess tax benefits are credited to additional capital in the Condensed Consolidated Balance Sheet. Realized shortfall tax benefits, amounts which are less than that previously recognized in earnings, are first offset against the cumulative balance of excess tax benefits, if any, and then charged directly to income tax expense. Under the transition rules for adopting SFAS 123R using the modified prospective method, the Company was permitted to calculate a cumulative balance of excess tax benefits from post-1995 years for the purpose of accounting for future shortfall tax benefits and, as a result, has sufficient cumulative excess tax benefits to absorb arising shortfalls, such that earnings were not affected in the nine months ended January 31, 2007.

The Company received cash from the exercise of stock options of \$16,363 and \$2,671 for the nine months ended January 31, 2007 and 2006, respectively. For the nine months ended January 31, 2007, the actual tax deductible benefit realized from share-based compensation was \$2,042, including \$2,366 of excess tax benefits realized upon exercise or vesting of share-based compensation, and classified as a financing activity on the Condensed Statement of Consolidated Cash Flows.

#### Note C Restructuring

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

To date, the Company closed its fruit processing operations at its Watsonville, California, and Woodburn, Oregon, locations and subsequently sold these facilities; completed the combination of its two manufacturing facilities in Ripon, Wisconsin, into one expanded site; completed a restructuring program to streamline operations in Europe and the United Kingdom, including the exit of a contract packaging arrangement and certain portions of its retail business; completed the sale of its U.S. industrial ingredient business; completed the realignment of distribution warehouses; sold the Salinas, California, facility after production was relocated to plants in Orrville, Ohio, and Memphis, Tennessee; and sold the Canadian grain-based foodservice and industrial businesses, which were acquired as part of International Multifoods Corporation, to Horizon Milling G.P., a subsidiary of Cargill and CHS Inc., as part of a strategic plan to focus the Canadian operations on its branded consumer retail and foodservice businesses. The Company has announced plans to continue to operate its West Fargo, North Dakota, location that was intended to be closed as part of the initial announced restructuring initiative.

The Canadian grain-based divestiture was completed on September 22, 2006. The sale and related restructuring activities are expected to result in pretax expense of approximately \$15 million, which will be reported as a restructuring charge. Costs will include noncash, long-lived asset charges, as well as transaction, legal, severance, and pension costs. During the first nine months of 2007, charges of approximately \$10.6 million were recognized related to the Canadian restructuring, consisting primarily of the noncash write down of long-lived assets to their estimated fair market value.

The following table summarizes the carrying values of the Canadian grain-based assets held for sale included in the Condensed Consolidated Balance Sheet at April 30, 2006.

#### Assets held for sale:

|                                       |              |
|---------------------------------------|--------------|
| Inventories                           | \$18,533     |
| Property, plant, and equipment    net | 71,182       |
| Other assets                          | 535          |
| <br>Total assets held for sale        | <br>\$90,250 |

The restructurings resulted in the reduction of approximately 410 full-time positions.

The Company expects to incur total restructuring costs of approximately \$61 million related to these initiatives, of which \$53.0 million has been incurred since the announcement of the initiative in March 2003. The balance of the costs and remaining cash payments, estimated to be approximately \$8.0 million and \$8.3 million, respectively, are primarily related to the Canadian restructuring and will mostly be incurred through 2008.

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

|   | Employee<br>Separation | Long-Lived<br>Asset<br>Charges | Equipment<br>Relocation | Other<br>Costs | Total     |
|---|------------------------|--------------------------------|-------------------------|----------------|-----------|
| Total expected restructuring charge     | \$ 16,900              | \$ 19,500                      | \$ 6,900                | \$ 17,700      | \$ 61,000 |
| Balance at May 1, 2005                  | \$ 3,222               | \$                             | \$                      | \$             | \$ 3,222  |
| Charge to expense:                      |                        |                                |                         |                |           |
| Three months ended July 31, 2005        | 993                    | 84                             | 469                     | 75             | 1,621     |
| Three months ended October 31, 2005     | 521                    | 113                            | 699                     | 758            | 2,091     |
| Three months ended January 31, 2006     | 1,077                  | 618                            | 2,329                   | 1,377          | 5,401     |
| Three months ended April 30, 2006       | 393                    | 884                            | (1,083)                 | 678            | 872       |
| Cash payments                           | (4,512)                |                                | (2,414)                 | (2,323)        | (9,249)   |
| Noncash utilization                     |                        | (1,699)                        |                         | (565)          | (2,264)   |
| Balance at April 30, 2006               | \$ 1,694               | \$                             | \$                      | \$             | \$ 1,694  |
| Charge to expense:                      |                        |                                |                         |                |           |
| Three months ended July 31, 2006        | 458                    | 7,173                          | 28                      | 245            | 7,904     |
| Three months ended October 31, 2006     | (85)                   | 2,119                          | 5                       | 885            | 2,924     |
| Three months ended January 31, 2007     | (43)                   |                                |                         | 533            | 490       |
| Cash payments                           | (1,387)                |                                | (33)                    | (974)          | (2,394)   |
| Noncash utilization                     | (108)                  | (9,292)                        |                         | (689)          | (10,089)  |
| Balance at January 31, 2007             | \$ 529                 | \$                             | \$                      | \$             | \$ 529    |
| Remaining expected restructuring charge | \$ 500                 | \$ 300                         | \$                      | \$ 7,200       | \$ 8,000  |

Approximately \$689 and \$618 of the total net restructuring charges of \$490 and \$5,401 recorded in the three months ended January 31, 2007 and 2006, respectively, and \$9,981 and \$865 of the total restructuring charges of \$11,318 and \$9,113 recorded in the nine months ended January 31, 2007 and 2006, respectively, 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 included in costs of products sold include long-lived asset charges and inventory disposition costs. Expected employee separation costs of approximately \$16,900 are being recognized over the estimated future service period of the related employees. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets.

Long-lived asset charges include impairments and accelerated depreciation related to machinery and equipment that will be used at the affected production facilities until they close or are sold. Other costs include miscellaneous expenditures associated with the Company's restructuring initiative and are expensed as incurred. These costs include employee relocation, professional fees, and other closed facility costs.

Note D Common Shares

At January 31, 2007, 150,000,000 common shares were authorized. There were 56,560,560 and 56,949,044 shares outstanding at January 31, 2007, and April 30, 2006, respectively. Shares outstanding are shown net of 8,717,356 and 8,185,015 treasury shares at January 31, 2007, and April 30, 2006, respectively.

Note E Operating Segments

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

The following tables sets forth reportable segment information.

|                                    | Three Months Ended<br>January 31, |            | Nine Months Ended<br>January 31, |              |
|------------------------------------|-----------------------------------|------------|----------------------------------|--------------|
|                                    | 2007                              | 2006       | 2007                             | 2006         |
| Net sales:                         |                                   |            |                                  |              |
| U.S. retail market                 | \$ 393,797                        | \$ 375,750 | \$ 1,181,556                     | \$ 1,147,240 |
| Special markets                    | 129,284                           | 160,703    | 472,989                          | 505,808      |
| Total net sales                    | \$ 523,081                        | \$ 536,453 | \$ 1,654,545                     | \$ 1,653,048 |
| Segment profit:                    |                                   |            |                                  |              |
| U.S. retail market                 | \$ 77,751                         | \$ 72,122  | \$ 236,796                       | \$ 234,287   |
| Special markets                    | 17,230                            | 16,313     | 52,448                           | 51,199       |
| Total segment profit               | \$ 94,981                         | \$ 88,435  | \$ 289,244                       | \$ 285,486   |
| Interest income                    | 2,629                             | 1,709      | 6,625                            | 4,858        |
| Interest expense                   | (5,656)                           | (5,984)    | (17,681)                         | (18,116)     |
| Amortization expense               | (118)                             | (25)       | (1,186)                          | (74)         |
| Restructuring costs                | (490)                             | (5,401)    | (11,318)                         | (9,113)      |
| Merger and integration costs       |                                   | (7,764)    |                                  | (14,784)     |
| Corporate administrative expenses  | (29,780)                          | (26,682)   | (89,024)                         | (86,392)     |
| Other unallocated (expense) income | (1,118)                           | 5,284      | (1,385)                          | 5,845        |
| Income before income taxes         | \$ 60,448                         | \$ 49,572  | \$ 175,275                       | \$ 167,710   |

|                         | Three Months Ended<br>January 31, |            | Nine Months Ended<br>January 31, |                   |
|-------------------------|-----------------------------------|------------|----------------------------------|-------------------|
|                         | 2007                              | 2006       | 2007                             | 2006              |
| Net sales:              |                                   |            |                                  |                   |
| Domestic                | \$ 459,296                        | \$ 436,999 | \$ 1,383,760                     | \$ 1,345,369      |
| International:          |                                   |            |                                  |                   |
| Canada                  | \$ 52,672                         | \$ 89,758  | \$ 235,718                       | \$ 278,525        |
| All other international | 11,113                            | 9,696      | 35,067                           | 29,154            |
| Total international     | \$ 63,785                         | \$ 99,454  | \$ 270,785                       | \$ 307,679        |
| Total net sales         | \$ 523,081                        | \$ 536,453 | \$ 1,654,545                     | \$ 1,653,048      |
|                         |                                   |            | January 31,<br>2007              | April 30,<br>2006 |
| Assets:                 |                                   |            |                                  |                   |
| Domestic                |                                   |            | \$ 2,171,993                     | \$ 2,101,109      |
| International:          |                                   |            |                                  |                   |
| Canada                  |                                   |            | \$ 472,489                       | \$ 539,750        |
| All other international |                                   |            | 11,396                           | 8,885             |
| Total international     |                                   |            | \$ 483,885                       | \$ 548,635        |
| Total assets            |                                   |            | \$ 2,655,878                     | \$ 2,649,744      |
| Long-lived assets:      |                                   |            |                                  |                   |
| Domestic                |                                   |            | \$ 1,725,551                     | \$ 1,662,389      |
| International:          |                                   |            |                                  |                   |
| Canada                  |                                   |            | \$ 342,383                       | \$ 339,490        |
| All other international |                                   |            | 6,018                            | 5,027             |
| Total international     |                                   |            | \$ 348,401                       | \$ 344,517        |
| Total long-lived assets |                                   |            | \$ 2,073,952                     | \$ 2,006,906      |

Note F Earnings Per Share

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

|   | Three Months Ended<br>January 31,<br>2007 |            | 2006 |            | Nine Months Ended<br>January 31,<br>2007 |            | 2006 |            |
|---|---|------------|------|------------|--|------------|------|------------|
| Numerator:                                    |   |            |      |            |  |            |      |            |
| Net income                                    | \$  | 40,427     | \$   | 31,312     | \$                                       | 114,720    | \$   | 107,653    |
| Denominator:                                  |   |            |      |            |  |            |      |            |
| Weighted-average shares                       |   | 56,185,039 |      | 57,944,604 |  | 56,494,799 |      | 58,106,913 |
| Effect of dilutive securities:                |   |            |      |            |  |            |      |            |
| Stock options                                 |   | 386,558    |      | 417,419    |  | 372,089    |      | 481,774    |
| Restricted shares                             |   | 216,003    |      | 124,389    |  | 193,330    |      | 119,522    |
| Weighted-average shares assuming dilution     |   | 56,787,600 |      | 58,486,412 |  | 57,060,218 |      | 58,708,209 |
| Net income per common share                   | \$  | 0.72       | \$   | 0.54       | \$                                       | 2.03       | \$   | 1.85       |
| Net income per common share assuming dilution | \$  | 0.71       | \$   | 0.54       | \$                                       | 2.01       | \$   | 1.83       |



Note G Pensions and Other Postretirement Benefits

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

|                                      | Three Months Ended January 31, |          |                               |          |
|--------------------------------------|--------------------------------|----------|-------------------------------|----------|
|                                      | Defined Benefit Pension Plans  |          | Other Postretirement Benefits |          |
|                                      | 2007                           | 2006     | 2007                          | 2006     |
| Service cost                         | \$ 1,632                       | \$ 2,262 | \$ 475                        | \$ 529   |
| Interest cost                        | 5,891                          | 5,624    | 722                           | 837      |
| Expected return on plan assets       | (7,993)                        | (7,112)  |                               |          |
| Recognized net actuarial loss (gain) | 403                            | 695      | (13)                          | 38       |
| Other                                | 466                            | 326      | (51)                          | 6        |
| Net periodic benefit cost            | \$ 399                         | \$ 1,795 | \$ 1,133                      | \$ 1,410 |

|                                | Nine Months Ended January 31, |          |                               |          |
|--------------------------------|-------------------------------|----------|-------------------------------|----------|
|                                | Defined Benefit Pension Plans |          | Other Postretirement Benefits |          |
|                                | 2007                          | 2006     | 2007                          | 2006     |
| Service cost                   | \$ 5,850                      | \$ 6,728 | \$ 1,528                      | \$ 1,582 |
| Interest cost                  | 17,899                        | 16,748   | 2,342                         | 2,493    |
| Expected return on plan assets | (24,128)                      | (21,168) |                               |          |
| Recognized net actuarial loss  | 1,021                         | 2,082    | 49                            | 115      |
| Other                          | 1,180                         | 978      | (153)                         | 18       |
| Net periodic benefit cost      | \$ 1,822                      | \$ 5,368 | \$ 3,766                      | \$ 4,208 |

Note H Comprehensive Income

During the three-month periods ended January 31, 2007 and 2006, total comprehensive income was \$26,236 and \$36,844, respectively. Total comprehensive income for the nine-month periods ended January 31, 2007 and 2006, was \$101,935 and \$120,027, respectively. Comprehensive income consists of net income, foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on available-for-sale securities, and unrealized gains and losses on commodity hedging activity, net of income taxes.

Note I Commitments and Contingencies

In September 2002, International Multifoods Corporation ( "Multifoods" ) sold its foodservice distribution business to Wellspring Distribution Corporation ( "Wellspring" ) while continuing to guarantee certain real estate and tractor-trailer fleet lease obligations of the business. As a result of the Company's acquisition of Multifoods, the Company now is obligated under these guarantees. The guarantees require the lessor to pursue collection and other remedies against Wellspring before demanding payment from the Company. The tractor-trailer fleet lease guarantee expired in September 2006 and the real estate guarantee will expire in September 2010.

The possibility that the Company would be required to honor the contingent liabilities under the real estate guarantee is largely dependent upon the future operations of Wellspring and the value of the underlying leased properties. The Company currently has no liability recorded related to the guarantee. Should a reserve be required in the future, it would be recorded at the time the obligation was considered to be probable. At January 31, 2007, the Company's guarantee outstanding related to the real estate lease was \$6,955.

**Note J Stock Benefit Plans**

The Company provides for equity-based incentives to be awarded to key employees and nonemployee directors. Currently, these incentives consist of restricted shares, restricted share units, deferred shares, deferred share units, performance units, performance shares, and stock options. These awards are administered through various plans, as described in the following paragraphs.

**2006 Equity Compensation Plan:** In August 2006, the Company's shareholders approved the 2006 Equity Compensation Plan. Awards under this plan may be in the form of stock options, stock appreciation rights, restricted shares, restricted share units, performance shares, performance units, incentive awards, and other share-based awards. Awards under this plan may be granted to the Company's nonemployee directors, consultants, officers, and other employees. At January 31, 2007, there were 2,491,220 shares available for future issuance under this plan. The deferred share units granted to nonemployee directors vest immediately.

As a result of this plan becoming effective in August 2006, no further awards will be made under the previously existing equity compensation plans listed below, except for certain defined circumstances included in the new plan.

**1998 Equity and Performance Incentive Plan:** This plan provides for the issuance of stock options and restricted shares, which may include performance criteria, as well as stock appreciation rights, deferred shares, restricted share units, performance shares, and performance units. As a result of the adoption of the 2006 Equity Compensation Plan, no further awards may be granted under this plan except for the potential conversion of performance units and performance shares granted in June 2006, into restricted shares once such performance units and performance shares are earned. Options granted under this plan become exercisable at the rate of one-third per year, beginning one year after the date of grant. The contractual term of the options is ten years, and the option price is equal to the market value of the shares on the date of the grant. Restricted shares and deferred shares issued under this plan are subject to a risk of forfeiture for at least three years in the event of termination of employment or failure to meet performance criteria, if any. Restricted shares and deferred shares issued to date under the plan are generally subject to a four-year forfeiture period, but may provide for the earlier termination of restrictions in the event of retirement, the attainment of a defined age and service requirements, permanent disability or death of an employee, or a change in control of the Company.

Upon adoption of Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payments* (SFAS 123R), restricted shares, deferred shares, performance units, and performance shares are charged to expense over a one-year performance period plus the defined forfeiture period. Performance units and performance shares are granted to a limited number of executives. At the beginning of each fiscal year, performance criteria are established for the restricted shares, deferred shares, performance shares, and performance units to be earned during the year. At the end of the one-year performance period, the earned restricted shares and deferred shares are granted and the earned performance units and performance shares are converted into restricted shares and all are subject to normal vesting over the remaining forfeiture period. The actual number of restricted shares issued on the conversion date will depend on the actual performance achieved and the average market value of the shares over the defined trading period.

1987 Stock Option Plan: Options granted under this plan become exercisable at the rate of one-third per year, beginning one year after the date of grant, and the option price is equal to the market value of the shares on the date of the grant. The maximum contractual term on options issued under this plan is ten years. As a result of the adoption of the 2006 Equity Compensation Plan, there are no common shares available for future grant under this plan.

Nonemployee Director Stock Option Plan: This plan provides for the issuance of stock options to nonemployee directors annually. Options granted under this plan become exercisable six months after the date of grant, and the option price is equal to the market value of the shares on the date of the grant. The maximum contractual term on options issued under this plan is ten years. As a result of the adoption of the 2006 Equity Compensation Plan, there are no common shares available for future grant under this plan.

Amended and Restated 1997 Stock-Based Incentive Plan: This plan was initially adopted by shareholders of International Multifoods Corporation ( Multifoods ) in 1997. Effective with the Company's acquisition of Multifoods, the Company assumed the plan. After the acquisition, only former employees of Multifoods that are employed by the Company were eligible to receive awards under the plan. As a result of the adoption of the 2006 Equity Compensation Plan, there are no common shares available for future grant under this plan. The maximum contractual term on options issued under this plan is ten years.

As a result of the acquisition, the Company also assumed two additional stock benefit plans. However, no common shares are available for future grant under these plans.

Under the 2006 Equity Compensation Plan, the Company has the option to settle share-based awards by issuing common shares from treasury or issuing new Company common shares. For awards granted from the Company's other equity compensation plans, the Company issues common shares from treasury, except for plans that were acquired as part of the Multifoods acquisition, which are settled by issuing new Company common shares.

#### **Stock Options**

Beginning in fiscal 2006, the Company replaced its employee stock option incentive program with a restricted share program. No stock options were issued during the nine-month period ended January 31, 2007 and 12,000 stock options were issued to nonemployee directors during the nine-month period ended January 31, 2006, with a grant date fair value of \$11.45. Management estimates the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. The main inputs into the model are estimated by management based on historical performance and management's expectation of future results. The following assumptions were used to estimate the fair value of the options granted in the nine-month period ending January 31, 2006.

|                               | Nine Months<br>Ended<br>January<br>31, 2006 |
|-------------------------------|---|
| Average expected term (years) | 5.25  |
| Risk-free interest rate       | 3.85%                                       |
| Dividend yield                | 2.00%                                       |
| Volatility                    | 25.50%                                      |
| Fair value of options granted | \$ 11.45                                    |

On April 12, 2006, the Executive Compensation Committee of the Company's Board of Directors approved accelerating the vesting of previously issued stock options that had exercise prices greater than \$39.31, the closing price of the Company's common shares on the New York Stock Exchange on

April 11, 2006. As a result, approximately 441,000 stock options with exercise prices of either \$43.38 or \$44.17 became immediately exercisable. Approximately 110,000 and 331,000 of these options would originally have vested in 2007 and 2008, respectively. The Company accelerated vesting in order to minimize future noncash compensation expense associated with stock options upon adoption of SFAS 123R, on May 1, 2006. By accelerating the vesting of those options, the Company will not incur pretax compensation expense of approximately \$2.7 million and \$1.0 million in 2007 and 2008, respectively, that otherwise would have been required to be recognized in the respective periods upon adoption of SFAS 123R related to these options.

A summary of the Company's stock option activity and related information follows:

|                                 | Options   | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at May 1, 2006      | 2,938,112 | \$ 36.03                        | 5.8   | \$ 9,484                  |
| Granted                         |           |                                 |   |                           |
| Exercised                       | (527,234) | 33.95                           |   | 7,270                     |
| Forfeited                       | (28,779)  | 51.47                           |   |                           |
| Outstanding at January 31, 2007 | 2,382,099 | \$ 36.31                        | 5.3   | \$ 26,640                 |
| Exercisable at January 31, 2007 | 2,382,099 | \$ 36.31                        | 5.3   | \$ 26,640                 |

The total intrinsic value of options exercised during the nine-month period ending January 31, 2007 and 2006, was approximately \$7,270 and \$2,103, respectively.

#### Other Equity Awards

A summary of the Company's restricted shares, deferred shares, deferred share units, performance shares, and performance unit activity, follows:

|                                 | Restricted and Deferred Shares and Units | Weighted-Average Grant Date Fair Value | Performance Shares and Units | Weighted-Average Fair Value |
|---------------------------------|--|--|------------------------------|-----------------------------|
| Outstanding at May 1, 2006      | 301,350                                  | \$ 44.03                               | 63,310                       | \$ 39.26                    |
| Granted                         | 172,669                                  | 40.80                                  | 69,915                       | 40.41                       |
| Converted                       | 63,310                                   | 40.41                                  | (63,310)                     | 40.41                       |
| Unrestricted                    | (91,990)                                 | 41.40                                  |                              |                             |
| Forfeited                       | (7,054)                                  | 44.45                                  |                              |                             |
| Outstanding at January 31, 2007 | 438,285                                  | \$ 42.97                               | 69,915                       | \$ 47.49                    |

The total fair value of equity awards other than stock options vesting in each of the nine months ended January 31, 2007 and 2006, respectively, was approximately \$3,808 and \$3,700. The weighted-average grant date fair value of restricted shares, deferred shares, and deferred share units is the average of the high and the low share price on the date of grant.

During the nine months ended January 31, 2007, the Company granted 235,979 restricted shares, deferred shares, and deferred share units. Included in the grant is 13,500 deferred shares and 213,750 restricted shares, with 63,310 of these representing the conversion of performance shares and performance units into restricted shares, all with a grant date fair value of \$40.41 and a total fair value of \$9,183 to employees, and 8,729 deferred share units granted to nonemployee directors with a grant date fair value of \$48.12 and a total fair value of \$420. Also during the nine months ended January 31, 2007, the Company granted performance units and performance shares that correspond to approximately 69,915 common shares with a grant date fair value of \$40.41 and a total fair value of \$2,825 on the date of grant. The actual number of performance units and performance shares earned may vary from the date of grant until the conversion to restricted shares based on actual Company performance and the average market value of the shares over the defined trading period. The grant date fair value of these awards was the average of the high and low share price on the date of grant.

**Note K Recently Issued Accounting Standards**

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which is an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 is effective for fiscal years beginning after December 15, 2006, (May 1, 2007, for the Company). The Company is currently assessing the impact of FIN 48 on the consolidated financial statements. In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 is effective for fiscal years beginning after November 15, 2007, (May 1, 2008, for the Company). The Company is currently assessing the impact of SFAS 157 on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( SFAS 158 ). SFAS 158 is effective for fiscal years ending after December 15, 2006, (the current fiscal year for the Company). The Company will be required to recognize the funded status of the defined benefit and postretirement plans and provide the required disclosures as outlined in SFAS 158 in the 2007 annual report. The Company does not expect the impact of adopting SFAS 158 to have a material impact on its results of operations or financial position.

**Note L Reclassifications**

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis deals with comparisons of material changes in the unaudited condensed consolidated financial statements for the three-month and nine-month periods ended January 31, 2007 and 2006, respectively.

**Net Sales**

Company net sales were \$523.1 million for the third quarter of fiscal 2007, a decrease of two percent compared to \$536.5 million in the third quarter of fiscal 2006. Net sales for the third quarter of 2007 increased six percent compared to 2006, excluding the Canadian nonbranded, grain-based foodservice and industrial businesses sold in September 2006 and the U.S. industrial ingredient business (divested businesses). Sales growth was led primarily by volume with some pricing gains in the *Smucker's*, *Jif*, and *Crisco* brands, strong performance across the special markets segment, and the contribution of approximately \$13.2 million from previously acquired brands.

Net sales for the nine-month period ended January 31, 2007, were \$1,654.5 million, flat compared to \$1,653.0 million for the first nine months of 2006. Net sales were up five percent for the first nine months of 2007 over 2006 after excluding divested businesses, and including approximately \$24.9 million of sales contributed by brands acquired during 2007.

U.S. retail market segment sales for the third quarter of 2007 were \$393.8 million, up five percent, compared to \$375.8 million in 2006 with sales in the consumer strategic business area up four percent and sales in the consumer oils and baking strategic business area up five percent. Increases in the consumer strategic business area were led by gains in peanut butter, fruit spreads, toppings, and *Uncrustables*. In the consumer oils and baking strategic business area, sales gains in retail oils, frostings, baking ingredients, and the contribution of the *White Lily* brand acquired earlier in the year, offset declines in sales of industrial oils and baking mixes.

U.S. retail market segment sales were \$1,181.6 million for the first nine months of 2007, an increase of three percent compared to \$1,147.2 million for the same period in 2006. For the first nine months of 2007, net sales in the consumer strategic business area were up five percent, and sales in the oils and baking strategic business area were flat compared to the first nine months of 2006.

Net sales in the third quarter of 2007 for the special markets segment were \$129.3 million, a decrease of 20 percent, compared to \$160.7 million in the third quarter of 2006. Excluding divested businesses, special market segment net sales increased 11 percent for the same period. All strategic business areas in special markets contributed to the net sales increase in the third quarter of 2007 with foodservice up 15 percent, Canada up 10 percent, beverage up eight percent, and international up 15 percent. Increased sales of traditional portion control products, as well as increases in *Uncrustables* in the schools market contributed to the foodservice improvement. The increase in Canada was driven by the acquisition of the *Five Roses* flour brand earlier in the year, the impact of favorable exchange rates, and growth in pickles and relishes.

Net sales in the special markets segment for the first nine months of 2007 were \$473.0 million compared to \$505.8 million for the first nine months of 2006, a decrease of six percent. Excluding divested businesses, special market segment net sales increased 11 percent for the first nine months of 2007 compared to 2006.

**Operating Income**

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

|   | Three Months Ended<br>January 31, |       | Nine Months Ended<br>January 31, |       |
|---|-----------------------------------|-------|----------------------------------|-------|
|   | 2007                              | 2006  | 2007                             | 2006  |
| Gross profit                                    | 33.1%                             | 30.5% | 31.6%                            | 32.2% |
| Selling, distribution, and administrative:      |                                   |       |                                  |       |
| Marketing and selling                           | 10.2%                             | 9.5%  | 9.9%                             | 10.2% |
| Distribution                                    | 3.6                               | 3.7   | 3.5                              | 3.5   |
| General and administrative                      | 7.0                               | 6.1   | 6.7                              | 6.5   |
| Total selling, distribution, and administrative | 20.8%                             | 19.3% | 20.1%                            | 20.2% |
| Restructuring and merger and integration        | 0.0%                              | 2.3%  | 0.2%                             | 1.4%  |
| Operating income                                | 12.3%                             | 8.9%  | 11.3%                            | 10.6% |

Operating income for the third quarter of 2007 increased \$16.7 million, or 35 percent, from the third quarter of 2006, and increased from 8.9 percent of net sales to 12.3 percent. The increase in operating income was primarily due to improvements in gross profit. The impact of the Canadian divestiture earlier in the year, combined with favorable product mix, accounted for the majority of the improvement in gross profit. Pricing actions taken to date have also contributed to the improvement. The Company continues to incur high commodity costs impacting both raw material and freight and continues to take pricing actions to offset a portion of the increased costs. Due to the timing of these pricing actions, all cost increases have not been fully offset.

Selling, distribution, and administrative ( SD&A ) expenses increased \$5.2 million, or five percent from the third quarter of 2006, and increased as a percentage of net sales from 19.3 percent to 20.8 percent, primarily due to higher marketing and administrative expenses compared to the same period last year. Distribution expenses decreased from the prior year.

Year-to-date operating income increased \$12.8 million, or seven percent, from last year and to 11.3 percent of net sales from 10.6 percent. Gross profit declined from 32.2 percent of net sales to 31.6 percent for the nine-month period due to an increase in restructuring and raw material costs. For the first nine months of 2007, SD&A as a percentage of net sales was 20.1 percent compared to 20.2 percent for the comparable period in 2006, primarily due to lower marketing expenses.

On May 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), *Share-Based Payments* ( SFAS 123R ), using the modified prospective method. The impact of SFAS 123R was not material to the Company's results of operations for the three-month or the nine-month period ended January 31, 2007.

**Other**

Interest income increased 54 percent for the third quarter and 36 percent for the first nine months of 2007 compared to the same periods in 2006 primarily related to an increase in invested funds combined with an increase in investment returns. During the same time periods, interest expense decreased slightly as proceeds from the sale of the Canadian grain-based foodservice and industrial businesses were utilized to pay down the outstanding revolving credit balance during the second quarter of 2007.



Other income during the third quarter and first nine months of 2006 includes a gain on the sale of the Company's Salinas, California, facility of approximately \$5.6 million.

#### Income Taxes

The Company's earnings for the third quarter were favorably impacted by a reduction in the effective tax rate from 36.8 percent in 2006, to 33.1 percent this quarter, reflecting an adjustment to the effective tax rate for the year-to-date period to 34.5 percent. The Company expects the 2007 full year tax rate to be approximately 34.5 percent compared to 33.5 percent for the year ended April 30, 2006.

#### Financial Condition Liquidity and Capital Resources

| (Dollars in thousands)                    | Nine Months Ended January<br>31, |             |
|---|----------------------------------|-------------|
|   | 2007                             | 2006        |
| Net cash provided by operating activities | \$ 212,042                       | \$ 124,580  |
| Net cash used for investing activities    | \$ (17,086)                      | \$ (640)    |
| Net cash used for financing activities    | \$ (111,418)                     | \$ (92,538) |

The Company's principal source of funds is cash generated from operations, supplemented by borrowings against the Company's revolving credit instrument. Total cash and investments at January 31, 2007, were \$199.2 million compared to \$120.9 million at April 30, 2006.

Historically, the Company's working capital requirements are greatest during the first half of its fiscal year, primarily due to the need to build inventory levels in advance of the fall bake season, the seasonal procurement of fruit, and the purchase of raw materials used in the Company's pickle and relish business in Canada.

Cash provided by operating activities was approximately \$212.0 million during the first nine months of 2007. The positive cash generated by operations resulted primarily from net income plus noncash charges, and the collection of trade receivables associated with the Canadian grain-based foodservice and industrial business divested earlier in the year.

Net cash used for investing activities was approximately \$17.1 million in the first nine months of 2007 as \$84.1 million of proceeds from the sale of the Canadian nonbranded, grain-based foodservice and industrial business, were offset by \$60.5 million used for business acquisitions, and capital expenditures of approximately \$42.9 million. Cash used for financing activities during the first nine months of 2007 consisted primarily of \$51.9 million to finance the repurchase of common shares, \$47.8 million in dividend payments, and \$28.3 million used to payoff the revolving credit facility, offset by proceeds from the exercise of stock options.

On August 22, 2006, The Company entered into a Rule 10b5-1 trading plan (the Plan) to facilitate the repurchase of up to one million common shares under its previously announced share repurchase authorization. The share purchase period commenced on August 22, 2006, and the Plan was fulfilled on November 29, 2006. Outside the Plan, the Company has 1,671,822 common shares remaining under the share repurchase authorization as of January 31, 2007. Absent any material acquisitions or other significant investments, the Company believes that cash on hand and investments, combined with cash provided by operations, and borrowings available under the revolving credit facility, will be sufficient to meet 2007 cash requirements, including the payment of dividends, repurchase of common shares, and interest on debt outstanding.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk related to changes in interest rates, commodity prices, and foreign currency exchange rates. For further information, reference is made to the Company's Annual Report on Form 10-K for the year ended April 30, 2006.

Certain Forward-Looking Statements

Certain statements included in this quarterly report contain forward-looking statements within the meaning of federal securities laws. The forward-looking statements may include statements concerning the Company's current expectations, estimates, assumptions, and beliefs concerning future events, conditions, plans, and strategies that are not historical fact. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as expects, anticipates, believes, will, plans, and similar phrases. Federal securities laws provide a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is providing this cautionary statement in connection with the safe harbor provisions. Readers are cautioned not to place undue reliance on any forward-looking statements as such statements are by nature subject to risks, uncertainties, and other factors, many of which are outside of the Company's control and could cause actual results to differ materially from such statements and from the Company's historical results and experience. These risks and uncertainties include, but are not limited to, those set forth under the caption Risk Factors in the Company's Annual Report on Form 10-K, as well as the following:

the volatility of commodity markets from which raw materials are procured and the related impact on costs;

crude oil price trends and its impact on transportation, energy, and packaging costs;

raw material and ingredient cost trends;

the ability to successfully implement price changes, particularly in the consumer oils and baking business;

the success and cost of introducing new products and the competitive response, particularly in the consumer oils and baking area;

the success and cost of marketing and sales programs and strategies intended to promote growth in the Company's businesses, and in their respective markets;

the concentration of certain of the Company's businesses with key customers and the ability to manage and maintain key customer relationships;

the loss of significant customers or a substantial reduction in orders from these customers or the bankruptcy of any such customer;

the timing and amount of capital expenditures and restructuring costs;

foreign currency exchange and interest rate fluctuations;

the timing and cost of acquiring common shares under the Company's share repurchase authorizations;

general competitive activity in the market, including competitors' pricing practices and promotional spending levels; and

other factors affecting share prices and capital markets generally.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Company's management, including the Company's principal executive officers and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 as amended (the

Exchange Act )) as of January 31, 2007, (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 recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

Changes in Internal Controls. There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended January 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 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 below and in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended April 30, 2006, should be carefully considered, together with the other information contained or incorporated by reference in the Quarterly Report on Form 10-Q and in the Company's other filings with the SEC, in connection with evaluating the Company, its business and the forward-looking statements contained in this Report. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial also may affect the Company. The occurrence of any of these known or unknown risks could have a material adverse impact on the Company's business, financial condition, and results of operations.

The Company's operations are subject to the general risks of the food industry.

The food industry is subject to risks posed by food spoilage and contamination, product tampering, product recall, and consumer product liability claims. The Company's operations could be impacted by both genuine and fictitious claims regarding the Company's and competitors' products. In the event of product contamination or tampering, the Company may need to recall some of its products. A widespread product recall could result in significant loss due to the cost of conducting a product recall including destruction of inventory and the loss of sales resulting from the unavailability of product for a period of time. The Company could also suffer losses from a significant product liability judgment against it. Either a significant product recall or a product liability judgment, involving either the Company or its competitors, could also result in a loss of consumer confidence in the Company's food products or the food category, and an actual or perceived loss of value of the Company's brands, materially impacting consumer demand.

The results of the Company may be adversely impacted by the growth in alternative energy markets.

The Company competes for certain raw materials, notably corn and soy-based agricultural products, with the emerging bio-fuels industry. As this industry grows, the supply of these particular raw materials may be limited. Additionally, farm acreage currently devoted to other agricultural products utilized by the Company, may be converted to corn or soy resulting in higher cost for other agricultural products utilized by the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

| Period                               | (a)<br>Total<br>Number<br>of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid Per<br>Share | (c)<br>Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of<br>Shares That<br>May Yet Be<br>Purchased<br>Under the<br>Plans<br>or Programs |
|--------------------------------------|---|--|---|---|
|                                      |   |  |   |   |
| November 1, 2006 – November 30, 2006 | 254,600   | \$ 47.30                                     | 254,600   | 1,739,222   |
| December 1, 2006 – December 31, 2006 | 67,400  | 47.76  | 67,400  | 1,671,822   |
| January 1, 2007 – January 31, 2007   |   |  |   | 1,671,822   |
| Total                                | 322,000   | \$ 47.40                                     | 322,000   | 1,671,822   |

Information set forth in the table above represents activity in the Company's third fiscal quarter of 2007.

(a) Since August 2004, the Company's Board of Directors has authorized management to repurchase up to five million common shares as presented in the following table.

Board of  
Directors

Number of  
Common  
Shares  
Authorized for

| Authorizations | Repurchase |
|----------------|------------|
| August 2004    | 1,000,000  |
| January 2006   | 2,000,000  |
| April 2006     | 2,000,000  |
| Total          | 5,000,000  |

The buyback program will be implemented at management's discretion with no established expiration date. Shares in this column include shares repurchased as part of this publicly announced plan as well as shares repurchased from stock plan recipients in lieu of cash payments.

- (d) The Company has repurchased a total of 3,328,178 shares from August 2004 through January 31, 2007, under the buyback program authorized by the Company's Board of Directors, including 1,000,000 common shares under the Company's February 2006 Rule 10b5-1 trading plan and 1,000,000 common shares under the Company's August 2006 Rule 10b5-1 trading plan. At January 31, 2007, 1,671,822 common shares remain available for repurchase under this program.

Item 6. Exhibits.

See the Index of Exhibits that appears on Page No. 26 of this report.

SIGNATURES

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

March 9, 2007

THE J. M. SMUCKER COMPANY

/s/ Timothy P. Smucker

BY TIMOTHY P. SMUCKER  
Chairman and Co-Chief Executive Officer

/s/ Richard K. Smucker

BY RICHARD K. SMUCKER  
President and Co-Chief Executive Officer

/s/ Mark R. Belgia

BY MARK R. BELGIA  
Vice President, Chief Financial Officer and Treasurer



# INDEX OF EXHIBITS

| Assigned<br>Exhibit<br>No.*   | Description  |
|---|--|
| 31.1  | Certification of Timothy P. Smucker pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act        |
| 31.2  | Certification of Richard K. Smucker pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act        |
| 31.3  | Certification of Mark R. Belgya pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act            |
| 32  | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 |
| <p>* Exhibits 2, 3, 10, 11, 15, 18, 19, 22, 23, 24, and 99 are either inapplicable to the Company or require no answer.</p> |  |