

HORMEL FOODS CORP /DE/

Form 10-Q

June 04, 2010

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## **UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

## **Form 10-Q**

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

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

For the quarterly period ended April 25, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-2402

## **HORMEL FOODS CORPORATION**

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(Exact name of registrant as specified in its charter)

**Delaware**

**41-0319970**

(State or other jurisdiction of incorporation or organization)

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

**1 Hormel Place**

**Austin, Minnesota**

**55912-3680**

(Address of principal executive offices)

(Zip Code)

**(507) 437-5611**

(Registrant's telephone number, including area code)

**None**

(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 the past 90 days.  **YES**  **NO**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  **YES**  **NO**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	Class		Outstanding at May 30, 2010
Common Stock		\$.0586 par value	133,240,441
Common Stock Non-Voting		\$.01 par value	-0-

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**PART I FINANCIAL INFORMATION**



**Item 1. Financial Statements**

**HORMEL FOODS CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

## Edgar Filing: HORMEL FOODS CORP /DE/ - Form 10-Q

(In Thousands of Dollars)

	April 25, 2010 (Unaudited)	October 25, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 355,181	\$ 385,252
Short-term marketable securities	50,023	0
Accounts receivable	356,524	372,292
Inventories	767,191	722,371
Income taxes receivable	7,217	0
Deferred income taxes	69,176	66,435
Prepaid expenses	11,911	9,130
Other current assets	19,167	19,253
<b>TOTAL CURRENT ASSETS</b>	<b>1,636,390</b>	<b>1,574,733</b>
<b>DEFERRED INCOME TAXES</b>	<b>110,864</b>	<b>122,007</b>
<b>GOODWILL</b>	<b>628,764</b>	<b>620,155</b>
<b>OTHER INTANGIBLES</b>	<b>146,845</b>	<b>140,854</b>
<b>PENSION ASSETS</b>	<b>30,477</b>	<b>29,663</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>130,869</b>	<b>86,599</b>
<b>OTHER ASSETS</b>	<b>165,570</b>	<b>165,331</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	53,063	52,952
Buildings	730,233	723,553
Equipment	1,318,830	1,317,845
Construction in progress	62,348	41,722
	2,164,474	2,136,072
Less allowance for depreciation	(1,230,119)	(1,183,359)
	934,355	952,713
<b>TOTAL ASSETS</b>	<b>\$ 3,784,134</b>	<b>\$ 3,692,055</b>

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In Thousands of Dollars)

	April 25, 2010 (Unaudited)	October 25, 2009
<b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 281,054	\$ 313,258
Accrued expenses	38,135	40,289
Accrued workers compensation	31,970	29,421
Accrued marketing expenses	90,477	70,452
Employee related expenses	166,406	181,531
Taxes payable	8,153	15,127
Interest and dividends payable	34,832	34,951
<b>TOTAL CURRENT LIABILITIES</b>	<b>651,027</b>	<b>685,029</b>
<b>LONG-TERM DEBT less current maturities</b>	<b>350,000</b>	<b>350,000</b>
<b>PENSION AND POST-RETIREMENT BENEFITS</b>	<b>430,002</b>	<b>429,800</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>87,252</b>	<b>102,905</b>
<b>SHAREHOLDERS INVESTMENT</b>		
Preferred stock, par value \$.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value \$.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value \$.0586 a share authorized 400,000,000 shares; issued 133,534,612 shares April 25, 2010 issued 133,593,719 shares October 25, 2009	7,825	7,828
Accumulated other comprehensive loss	(192,667)	(203,610)
Retained earnings	2,447,247	2,318,390
<b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>	<b>2,262,405</b>	<b>2,122,608</b>
<b>NONCONTROLLING INTEREST</b>	<b>3,448</b>	<b>1,713</b>
<b>TOTAL SHAREHOLDERS INVESTMENT</b>	<b>2,265,853</b>	<b>2,124,321</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>	<b>\$ 3,784,134</b>	<b>\$ 3,692,055</b>

See Notes to Consolidated Financial Statements

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**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 25, 2010	April 26, 2009	April 25, 2010	April 26, 2009
Net sales	\$ 1,699,782	\$ 1,595,043	\$ 3,427,229	\$ 3,284,129
Cost of products sold	1,419,315	1,333,005	2,828,375	2,749,776
<b>GROSS PROFIT</b>	<b>280,467</b>	<b>262,038</b>	<b>598,854</b>	<b>534,353</b>
Selling, general and administrative	146,782	139,846	292,314	282,371
Equity in earnings of affiliates	3,952	1,485	6,773	2,183
<b>OPERATING INCOME</b>	<b>137,637</b>	<b>123,677</b>	<b>313,313</b>	<b>254,165</b>
Other income and expense:				
Interest and investment income	1,423	8,584	1,866	10,975
Interest expense	(6,574)	(6,918)	(13,135)	(14,373)
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>132,486</b>	<b>125,343</b>	<b>302,044</b>	<b>250,767</b>
Provision for income taxes	53,951	44,243	111,240	87,490
<b>NET EARNINGS</b>	<b>78,535</b>	<b>81,100</b>	<b>190,804</b>	<b>163,277</b>
Less: Net earnings attributable to noncontrolling interest	673	715	1,735	1,509
<b>NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 77,862</b>	<b>\$ 80,385</b>	<b>\$ 189,069</b>	<b>\$ 161,768</b>
<b>NET EARNINGS PER SHARE:</b>				
BASIC	\$ 0.58	\$ 0.60	\$ 1.42	\$ 1.20
DILUTED	\$ 0.57	\$ 0.59	\$ 1.40	\$ 1.20
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
BASIC	133,593	134,272	133,591	134,325
DILUTED	135,579	135,373	135,470	135,268
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$ 0.21</b>	<b>\$ 0.19</b>	<b>\$ 0.42</b>	<b>\$ 0.38</b>

See Notes to Consolidated Financial Statements



Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT****(In Thousands, Except Per Share Amounts)****(Unaudited)**

	Hormel Foods Corporation Shareholders				Accumulated	Non-	Total
	Common	Treasury	Additional	Retained	Other	controlling	Shareholders
	Stock	Stock	Paid-in	Earnings	Comprehensive	Interest	Investment
			Capital		Income (Loss)		
Balance at October 26, 2008	\$ 7,883	\$ 0	\$ 0	\$ 2,112,873	\$ (114,016)	\$ 6,535	\$ 2,013,275
Comprehensive income							
Net earnings				342,813		3,165	345,978
Foreign currency translation					(862)	12	(850)
Deferred hedging, net of reclassification adjustment					27,763		27,763
Pension and other benefits					(117,954)		(117,954)
Comprehensive income						3,177	254,937
ASC 715 measurement date adjustment (net of \$912 tax effect)				(11,793)	1,459		(10,334)
Purchases of common stock		(38,147)					(38,147)
Stock-based compensation expense			12,054				12,054
Exercise of stock options/nonvested shares	13	(15)	2,553				2,551
Shares retired	(68)	38,162	(14,607)	(23,487)			0
Distribution to noncontrolling interest						(7,999)	(7,999)
Cash dividends - \$.76 per share				(102,016)			(102,016)
Balance at October 25, 2009	\$ 7,828	\$ 0	\$ 0	\$ 2,318,390	\$ (203,610)	\$ 1,713	\$ 2,124,321
Comprehensive income							
Net earnings				189,069		1,735	190,804
Foreign currency translation					2,822	0	2,822
Deferred hedging, net of reclassification adjustment					1,561		1,561
Pension and other benefits					6,560		6,560
Comprehensive income						1,735	201,747
Purchases of common stock		(29,826)					(29,826)
Stock-based compensation expense			9,186				9,186
Exercise of stock options/nonvested shares	41	(220)	13,885				13,706
Shares retired	(44)	30,046	(23,071)	(6,931)			0
Cash dividends - \$.42 per share				(53,281)			(53,281)
<b>Balance at April 25, 2010</b>	<b>\$ 7,825</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 2,447,247</b>	<b>\$ (192,667)</b>	<b>\$ 3,448</b>	<b>\$ 2,265,853</b>

See Notes to Consolidated Financial Statements





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**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands of Dollars)

(Unaudited)

	Six Months Ended	
	April 25, 2010	April 26, 2009
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 190,804	\$ 163,277
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	56,261	57,322
Amortization of intangibles	5,210	5,172
Equity in earnings of affiliates	(6,773)	(2,183)
Provision for deferred income taxes	3,887	(4,417)
Loss on property/equipment sales and plant facilities	57	160
Gain on dissolution of joint venture	0	(3,634)
Non-cash investment activities	(624)	(5,034)
Stock-based compensation expense	9,186	7,416
Excess tax benefit from stock-based compensation	(6,330)	(600)
Other	6,595	0
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	15,932	74,934
(Increase) Decrease in inventories	(47,330)	36,309
(Increase) Decrease in prepaid expenses and other current assets	(2,730)	24,444
Increase in pension and post-retirement benefits	14,916	5,141
Decrease in accounts payable and accrued expenses	(59,723)	(94,356)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>179,338</b>	<b>263,951</b>
<b>INVESTING ACTIVITIES</b>		
Sale of available-for-sale securities	0	6,270
Purchase of available-for-sale securities	0	(2,371)
Net (purchase) sale of trading securities	(50,000)	0
Acquisitions of businesses/intangibles	(28,144)	(580)
Purchases of property/equipment	(40,124)	(45,821)
Proceeds from sales of property/equipment	2,369	2,017
Increase in investments, equity in affiliates, and other assets	(31,145)	(1,581)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(147,044)</b>	<b>(42,066)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid on common stock	(53,400)	(50,376)
Share repurchase	(29,826)	(10,375)
Proceeds from exercise of stock options	14,201	1,459
Excess tax benefit from stock-based compensation	6,330	600
Distribution to noncontrolling interest	0	(4,999)
Other	330	(641)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(62,365)</b>	<b>(64,332)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(30,071)</b>	<b>157,553</b>
Cash and cash equivalents at beginning of year	385,252	154,778
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 355,181</b>	<b>\$ 312,331</b>



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**HORMEL FOODS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE A    GENERAL**

**Basis of Presentation**



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The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 25, 2009, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2009.

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation and to conform with recent accounting pronouncements and guidance. The impact of these reclassifications on net earnings and operating cash flows are discussed below under New Accounting Pronouncements. The reclassifications had no impact on net earnings per share as previously reported.

### **Investments**

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Gains related to securities still held by the trust were \$1.7 million and \$2.5 million for the second quarter and six months ended April 25, 2010, respectively, compared to gains of \$4.1 million and \$5.8 million for the three and six months ended April 26, 2009. The Company has transitioned the majority of this portfolio to more fixed return investments to reduce the exposure to volatility in equity markets going forward.

The Company also holds securities as part of an investment portfolio, which are classified as short-term marketable securities on the Consolidated Statements of Financial Position. These investments are also trading securities. Therefore, unrealized gains and losses are included in the Company's earnings. The Company recorded an immaterial gain related to these investments during the second quarter ended April 25, 2010.

### **Supplemental Statement of Operations Information**



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Net earnings for the second quarter and six months ended April 25, 2010, include two non-recurring charges recorded by the Company. During the second quarter, the Company made the decision to close its Valley Fresh plant in Turlock, California, by the end of fiscal 2010. Valley Fresh canned meats are produced at this facility. A write-down of fixed assets and the recording of employee related costs resulted in a charge to net earnings of \$6.3 million (\$0.05 per diluted share). New health care laws recently enacted also required the Company to reduce the value of its deferred tax assets as a result of a change to the tax treatment of Medicare Part D subsidies. As a result, the Company recorded a charge of \$7.1 million (\$0.05 per diluted share) to income tax expense during the second quarter, primarily related to these new health care laws.



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**Supplemental Cash Flow Information**



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Non-cash investment activities presented on the Consolidated Statements of Cash Flows generally consist of unrealized gains or losses on the Company's rabbi trust and other investments, amortization of affordable housing investments, and amortization of bond financing costs. The noted investments are included in other assets or short-term marketable securities on the Consolidated Statements of Financial Position. Changes in the value of these investments are included in the Company's net earnings and are presented in the Consolidated Statements of Operations as either interest and investment income or interest expense, as appropriate.

### **Guarantees**



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The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company's guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides a renewable standby letter of credit for \$3.9 million to guarantee obligations that may arise under worker compensation claims of an affiliated party. This potential obligation is not reflected in the Company's Consolidated Statements of Financial Position.

### Subsequent Events

On May 25, 2010, subsequent to the end of the second quarter, the Company entered into an unsecured 3-year revolving credit facility in the amount of \$300.0 million. The credit facility will be used to refinance existing indebtedness and for working capital and other general corporate purposes, including commercial paper backup and acquisition funding. This agreement replaces the Company's existing \$200.0 million credit facility that was entered into on June 1, 2005. Wells Fargo Bank, National Association is acting as the Administrative Agent for the credit facility, and the lenders receive a fee for the availability of the line of credit. Interest on funds borrowed under the facility will be charged at one of two variable rate formulas to be selected by the Company at the time of borrowing.

### New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) updated the guidance within FASB Accounting Standards Codification (ASC) 715, *Compensation - Retirement Benefits*. The update provides additional guidance regarding disclosures about plan assets of defined benefit pension or other post-retirement plans. The updated guidance is effective for fiscal years ending after December 15, 2009. The Company will therefore adopt the new provisions of this accounting standard in its annual financial statements for the fiscal year ending October 31, 2010, and is currently assessing the disclosure impact on its consolidated financial statements.

In December 2007, the FASB issued an update to ASC 805, *Business Combinations* (ASC 805). The update establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable the users of the financial statements to evaluate the nature and financial effects of the business combination. The updated guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Generally, the effect of ASC 805 will depend on future acquisitions. However, the accounting for any tax uncertainties is subject to the provisions of the standard upon adoption. The Company adopted the provisions of ASC 805 at the beginning of fiscal 2010, and adoption did not have a material impact on consolidated net earnings, cash flows, or financial position.

In December 2007, the FASB also updated the guidance within ASC 810, *Consolidation* (ASC 810). The update establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends the requirements for certain consolidation procedures for consistency with the requirements of ASC 805. The updated guidance was effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company adopted the provisions of ASC 810 at the beginning of fiscal 2010. Adoption did not have a material impact on the consolidated financial statements, but resulted in the following changes in presentation and disclosure:

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1) noncontrolling interests were reclassified from other long-term liabilities or accumulated other comprehensive loss (foreign currency translation) to a separate component of shareholders' investment in the Consolidated Statements of Financial Position; 2) consolidated net earnings on the Consolidated Statements of Operations now include the net earnings attributable to both the Company and its noncontrolling interests; 3) an interim Consolidated Statement of Changes in Shareholders' Investment has been provided to identify the components of shareholders' investment and comprehensive income attributable to the Company's noncontrolling interests; and 4) the Consolidated Statements of Cash Flows now begin with consolidated net earnings attributable to both the Company and its noncontrolling interests, with the net earnings of the noncontrolling interests no longer included within changes in operating assets and liabilities and any distributions to the noncontrolling interests included in financing activities. As required, the prior year consolidated financial statements have also been reclassified to comply with the current year's presentation and disclosure requirements.

In September 2006, the FASB issued ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, the provisions of ASC 820 allowed for deferral of adoption by one year for nonfinancial assets and liabilities measured at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and long-lived assets measured at fair value for impairment testing or nonfinancial assets and liabilities initially measured at fair value during a business combination). Therefore, the Company adopted ASC 820 at the beginning of fiscal 2009 for its financial assets and liabilities. Adoption did not impact consolidated net earnings, cash flows, or financial position, but resulted in additional disclosures. (See further discussion in Note I - Fair Value Measurements.) Pursuant to the allowed deferral, the Company adopted the provisions of ASC 820 at the beginning of fiscal 2010 for its nonfinancial assets and liabilities. Adoption did not impact consolidated net earnings, cash flows, or financial position.

**NOTE B ACQUISITIONS**

Effective February 1, 2010, the Company completed the acquisition of the *Country Crock*® chilled side dish business from Unilever United States Inc. This line of microwaveable, refrigerated side dishes complements the Company's *Hormel* refrigerated entrées and *Lloyd*'s barbeque product lines within the Refrigerated Foods segment. *Country Crock*® remains a registered trademark of the Unilever Group of Companies and is being used under license.

Operating results for this product line are included in the Company's Consolidated Statements of Operations from the date of acquisition. Pro forma results are not presented, as the acquisition is not material to the consolidated Company.

**NOTE C STOCK-BASED COMPENSATION**

The Company has stock incentive plans for employees and non-employee directors, including stock options and nonvested shares. The Company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Ordinary options vest over periods ranging from six months to four years and expire ten years after the grant date. The Company recognizes stock-based compensation expense ratably over the shorter of the requisite service period or vesting period. The fair value of stock-based compensation granted to retirement-eligible individuals is expensed at the time of grant.



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A reconciliation of the number of options outstanding and exercisable (in thousands) as of April 25, 2010, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 25, 2009	11,604	\$ 30.86		
Granted	1,328	38.51		
Exercised	(1,086)	22.28		
Forfeitures	(56)	37.03		
Outstanding at April 25, 2010	11,790	\$ 32.48	6.0 years	\$ 89,019
Exercisable at April 25, 2010	7,279	\$ 30.40	4.7 years	\$ 70,098

The weighted-average grant date fair value of stock options granted, and the total intrinsic value of options exercised (in thousands) during the second quarter and six months of fiscal years 2010 and 2009, are as follows:

	Three Months Ended		Six Months Ended	
	April 25, 2010	April 26, 2009	April 25, 2010	April 26, 2009
Weighted-average grant date fair value	\$ 9.53	\$ 6.76	\$ 9.09	\$ 5.86
Intrinsic value of exercised options	\$ 9,451	\$ 258	\$ 19,225	\$ 1,558

The fair value of each ordinary option award is calculated on the date of grant using the Black-Scholes valuation model utilizing the following weighted-average assumptions.

	Three Months Ended		Six Months Ended	
	April 25, 2010	April 26, 2009	April 25, 2010	April 26, 2009
Risk-Free Interest Rate	3.6%	3.4%	3.4%	3.2%
Dividend Yield	2.2%	2.5%	2.2%	2.5%
Stock Price Volatility	22.0%	22.0%	22.0%	22.0%
Expected Option Life	8 years	8 years	8 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the Company's targeted dividend yield. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for ordinary option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee groups.



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The Company's nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of April 25, 2010, and changes during the six months then ended, is as follows:

	<b>Shares</b>		<b>Weighted- Average Grant- Date Fair Value</b>
Nonvested at October 25, 2009	98	\$	34.90
Granted	25		39.12
Vested	(20)		33.21
Nonvested at April 25, 2010	103	\$	36.25