

HORMEL FOODS CORP /DE/
Form 10-Q
September 03, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 25, 2010

or

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

For the transition period from to

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

41-0319970

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

1 Hormel Place

Austin, Minnesota

(Address of principal executive offices)

55912-3680

(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

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 August 29, 2010 |
|-------------------------|-------------------|--------------------------------|
| Common Stock | \$.0586 par value | 133,184,133 |
| Common Stock Non-Voting | \$.01 par value | -0- |

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| | July 25, 2010 (Unaudited) | October 25, 2009 |
|---|---------------------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 376,917 | \$ 385,252 |
| Short-term marketable securities | 50,214 | 0 |
| Accounts receivable | 383,892 | 372,292 |
| Inventories | 790,875 | 722,371 |
| Income taxes receivable | 6,421 | 0 |
| Deferred income taxes | 71,501 | 66,435 |
| Prepaid expenses | 13,342 | 9,130 |
| Other current assets | 17,420 | 19,253 |
| TOTAL CURRENT ASSETS | 1,710,582 | 1,574,733 |
| DEFERRED INCOME TAXES | 105,294 | 122,007 |
| GOODWILL | 628,820 | 620,155 |
| OTHER INTANGIBLES | 144,268 | 140,854 |
| PENSION ASSETS | 31,238 | 29,663 |
| INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES | 132,433 | 86,599 |
| OTHER ASSETS | 164,228 | 165,331 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 53,074 | 52,952 |
| Buildings | 726,949 | 723,553 |
| Equipment | 1,344,240 | 1,317,845 |
| Construction in progress | 56,376 | 41,722 |
| | 2,180,639 | 2,136,072 |
| Less allowance for depreciation | (1,252,476) | (1,183,359) |
| | 928,163 | 952,713 |
| TOTAL ASSETS | \$ 3,845,026 | \$ 3,692,055 |

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(In Thousands of Dollars)**

| | July 25, 2010 (Unaudited) | October 25, 2009 |
|---|--|-----------------------------|
| LIABILITIES AND SHAREHOLDERS INVESTMENT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 297,110 | \$ 313,258 |
| Accrued expenses | 33,515 | 40,289 |
| Accrued workers compensation | 32,518 | 29,421 |
| Accrued marketing expenses | 97,540 | 70,452 |
| Employee related expenses | 164,460 | 181,531 |
| Taxes payable | 9,374 | 15,127 |
| Interest and dividends payable | 31,594 | 34,951 |
| Current maturities of long-term debt | 350,000 | 0 |
| TOTAL CURRENT LIABILITIES | 1,016,111 | 685,029 |
| LONG-TERM DEBT less current maturities | 0 | 350,000 |
| PENSION AND POST-RETIREMENT BENEFITS | 433,649 | 429,800 |
| OTHER LONG-TERM LIABILITIES | 87,544 | 102,905 |
| SHAREHOLDERS INVESTMENT | | |
| 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 133,069,235 shares July 25, 2010 | | |
| issued 133,593,719 shares October 25, 2009 | 7,798 | 7,828 |
| Accumulated other comprehensive loss | (188,175) | (203,610) |
| Retained earnings | 2,483,635 | 2,318,390 |
| HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT | 2,303,258 | 2,122,608 |
| NONCONTROLLING INTEREST | 4,464 | 1,713 |
| TOTAL SHAREHOLDERS INVESTMENT | 2,307,722 | 2,124,321 |
| TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT | \$ 3,845,026 | \$ 3,692,055 |

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 | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|-------------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Net sales | \$ 1,730,451 | \$ 1,574,440 | \$ 5,157,680 | \$ 4,858,569 |
| Cost of products sold | 1,445,536 | 1,314,116 | 4,273,911 | 4,063,892 |
| GROSS PROFIT | 284,915 | 260,324 | 883,769 | 794,677 |
| Selling, general and administrative | 146,523 | 142,010 | 438,837 | 424,381 |
| Equity in earnings of affiliates | 2,222 | 1,216 | 8,995 | 3,399 |
| OPERATING INCOME | 140,614 | 119,530 | 453,927 | 373,695 |
| Other income and expense: | | | | |
| Interest and investment income | 310 | 6,410 | 2,176 | 17,385 |
| Interest expense | (6,493) | (6,963) | (19,628) | (21,336) |
| EARNINGS BEFORE INCOME TAXES | 134,431 | 118,977 | 436,475 | 369,744 |
| Provision for income taxes | 48,067 | 40,882 | 159,307 | 128,372 |
| NET EARNINGS | 86,364 | 78,095 | 277,168 | 241,372 |
| Less: Net earnings attributable to noncontrolling interest | 994 | 926 | 2,729 | 2,435 |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$ 85,370 | \$ 77,169 | \$ 274,439 | \$ 238,937 |
| NET EARNINGS PER SHARE: | | | | |
| BASIC | \$ 0.64 | \$ 0.57 | \$ 2.06 | \$ 1.78 |
| DILUTED | \$ 0.63 | \$ 0.57 | \$ 2.03 | \$ 1.76 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| BASIC | 133,201 | 134,255 | 133,461 | 134,301 |
| DILUTED | 135,163 | 135,720 | 135,368 | 135,419 |
| DIVIDENDS DECLARED PER SHARE: | \$ 0.21 | \$ 0.19 | \$ 0.63 | \$ 0.57 |

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 Other Comprehensive Income (Loss) | Non- controlling Interest | Total Shareholders Investment |
|--|---------------------------------------|-------------------|----------------------------------|----------------------|---------------------|--|---------------------------------|-------------------------------------|
| | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings | | | | |
| 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) | |
| Declared 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 | | | | 274,439 | | 2,729 | 277,168 | |
| Foreign currency translation | | | | | 1,306 | 22 | 1,328 | |
| Deferred hedging, net of reclassification adjustment | | | | | 7,296 | | 7,296 | |
| Pension and other benefits | | | | | 6,833 | | 6,833 | |
| Comprehensive income | | | | | | 2,751 | 292,625 | |
| Purchases of common stock | | (53,171) | | | | | (53,171) | |
| Stock-based compensation expense | | | 11,868 | | | | 11,868 | |
| Exercise of stock options/nonvested shares | 48 | (287) | 16,319 | | | | 16,080 | |
| Shares retired | (78) | 53,458 | (28,187) | (25,193) | | | 0 | |
| Declared cash dividends \$.63 per share | | | | (84,001) | | | (84,001) | |
| Balance at July 25, 2010 | \$ 7,798 | \$ 0 | \$ 0 | \$ 2,483,635 | \$ (188,175) | \$ 4,464 | \$ 2,307,722 | |

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

| | Nine Months Ended | |
|--|-------------------|-------------------|
| | July 25, 2010 | July 26, 2009 |
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 277,168 | \$ 241,372 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 84,332 | 86,339 |
| Amortization of intangibles | 7,786 | 7,735 |
| Equity in earnings of affiliates | (8,995) | (3,399) |
| Provision for deferred income taxes | 1,285 | (4,457) |
| (Gain) Loss on property/equipment sales and plant facilities | (81) | 342 |
| Gain on dissolution of joint venture | 0 | (3,591) |
| Non-cash investment activities | (276) | (10,296) |
| Stock-based compensation expense | 11,868 | 9,832 |
| Excess tax benefit from stock-based compensation | (7,243) | (997) |
| Other | 7,595 | 0 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| (Increase) Decrease in accounts receivable | (11,600) | 55,602 |
| (Increase) Decrease in inventories | (71,013) | 39,820 |
| Decrease in prepaid expenses and other current assets | 4,732 | 24,402 |
| Increase (Decrease) in pension and post-retirement benefits | 2,182 | (47,894) |
| Decrease in accounts payable and accrued expenses | (26,118) | (62,687) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 271,622 | 332,123 |
| INVESTING ACTIVITIES | | |
| Sale of available-for-sale securities | 0 | 6,270 |
| Purchase of available-for-sale securities | 0 | (2,371) |
| Net purchase of trading securities | (50,000) | 0 |
| Acquisitions of businesses/intangibles | (27,978) | (701) |
| Purchases of property/equipment | (63,754) | (71,029) |
| Proceeds from sales of property/equipment | 3,200 | 3,308 |
| (Increase) Decrease in investments, equity in affiliates, and other assets | (30,970) | 4,283 |
| NET CASH USED IN INVESTING ACTIVITIES | (169,502) | (60,240) |
| FINANCING ACTIVITIES | | |
| Principal payments on short-term debt | 0 | (40,000) |
| Dividends paid on common stock | (81,429) | (75,880) |
| Share repurchase | (53,171) | (13,876) |
| Proceeds from exercise of stock options | 16,780 | 1,935 |
| Excess tax benefit from stock-based compensation | 7,243 | 997 |
| Distribution to noncontrolling interest | 0 | (4,999) |
| Other | 122 | 262 |
| NET CASH USED IN FINANCING ACTIVITIES | (110,455) | (131,561) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (8,335) | 140,322 |
| Cash and cash equivalents at beginning of year | 385,252 | 154,778 |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER | \$ 376,917 | \$ 295,100 |

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A GENERAL

Basis of Presentation

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 \$0.4 million and \$2.9 million for the third quarter and nine months ended July 25, 2010, respectively, compared to gains of \$5.7 million and \$11.5 million for the three and nine months ended July 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 a gain of \$0.2 million related to these investments during both the third quarter and nine months ended July 25, 2010.

Supplemental Statement of Operations Information

Net earnings for the nine months ended July 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

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

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 \$4.8 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.

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: 1) noncontrolling interests were reclassified from other long-term liabilities or accumulated other

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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

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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* barbecue 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 issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. 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.

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

| Shares | Weighted- Average Exercise Price | Weighted- Average Remaining | Aggregate Intrinsic Value |
|--------|--|-----------------------------------|---------------------------------|
|--------|--|-----------------------------------|---------------------------------|

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| | | | | Contractual Term | |
|---------------------------------|---------|----|-------|-----------------------------|------------|
| Outstanding at October 25, 2009 | 11,604 | \$ | 30.86 | | |
| Granted | 1,328 | | 38.51 | | |
| Exercised | (1,295) | | 22.83 | | |
| Forfeitures | (75) | | 37.13 | | |
| Outstanding at July 25, 2010 | 11,562 | \$ | 32.60 | 5.8 years | \$ 117,512 |
| Exercisable at July 25, 2010 | 7,085 | \$ | 30.53 | 4.5 years | \$ 86,662 |

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Weighted-average grant date fair value | N/A | N/A | \$ 9.09 | \$ 5.86 |
| Intrinsic value of exercised options | \$ 3,334 | \$ 1,046 | \$ 22,559 | \$ 2,604 |

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. No options were granted in the third quarter ending July 25, 2010, or July 26, 2009.

| | Nine Months Ended | |
|-------------------------|-------------------|------------------|
| | July 25, 2010 | July 26, 2009 |
| Risk-Free Interest Rate | 3.4% | 3.2% |
| Dividend Yield | 2.2% | 2.5% |
| Stock Price Volatility | 22.0% | 22.0% |
| Expected Option Life | 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 dividend rate approved by the Company's Board of Directors and the stock price on the grant date. 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.

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

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

No nonvested shares were granted or vested in the three month periods ended July 25, 2010, or July 26, 2009. The weighted-average grant date fair value of nonvested shares granted, the total fair value (in thousands) of nonvested shares granted, and the fair value (in thousands) of shares that have vested during the first nine months of fiscal years 2010 and 2009, are as follows:

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| | Nine Months Ended | | | |
|--|-------------------|-------|------------------|-------|
| | July 25, 2010 | | July 26, 2009 | |
| Weighted-average grant date fair value | \$ | 39.12 | \$ | 30.39 |
| Fair value of nonvested shares granted | \$ | 978 | \$ | 836 |
| Fair value of shares vested | \$ | 664 | \$ | 204 |

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Stock-based compensation expense, along with the related income tax benefit, for the third quarter and nine months of fiscal years 2010 and 2009 are presented in the table below.

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Stock-based compensation expense recognized | \$ 2,682 | \$ 2,416 | \$ 11,868 | \$ 9,832 |
| Income tax benefit recognized | (1,028) | (929) | (4,548) | (3,781) |
| After-tax stock-based compensation expense | \$ 1,654 | \$ 1,487 | \$ 7,320 | \$ 6,051 |

At July 25, 2010, there was \$15.1 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.5 years. During the third quarter and nine months ended July 25, 2010, cash received from stock option exercises was \$2.6 million and \$16.8 million, compared to \$0.4 million and \$1.9 million for the third quarter and nine months ended July 26, 2009. The total tax benefit to be realized for tax deductions from these option exercises for the third quarter and nine months ended July 25, 2010, was \$1.2 million and \$8.6 million, respectively, compared to \$0.4 million and \$1.0 million in the comparable periods in fiscal 2009.

Shares issued for option exercises and nonvested shares may be either authorized but unissued shares, or shares of treasury stock acquired in the open market or otherwise.

NOTE D GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the third quarter and nine months ended July 25, 2010, are presented in the tables below. The additions to Refrigerated Foods during fiscal 2010 relate to the *Country Crock*® acquisition.

| (in thousands) | Grocery Products | Refrigerated Foods | JOTS | Specialty Foods | All Other | Total |
|------------------------------|---------------------|-----------------------|------------|-----------------|-----------|------------|
| Balance as of April 25, 2010 | \$ 123,316 | \$ 94,532 | \$ 203,214 | \$ 207,028 | \$ 674 | \$ 628,764 |
| Goodwill acquired | | 56 | | | | 56 |
| Balance as of July 25, 2010 | \$ 123,316 | \$ 94,588 | \$ 203,214 | \$ 207,028 | \$ 674 | \$ 628,820 |

| (in thousands) | Grocery Products | Refrigerated Foods | JOTS | Specialty Foods | All Other | Total |
|--------------------------------|---------------------|-----------------------|------------|-----------------|-----------|------------|
| Balance as of October 25, 2009 | \$ 123,316 | \$ 85,923 | \$ 203,214 | \$ 207,028 | \$ 674 | \$ 620,155 |
| Goodwill acquired | | 8,665 | | | | 8,665 |
| Balance as of July 25, 2010 | \$ 123,316 | \$ 94,588 | \$ 203,214 | \$ 207,028 | \$ 674 | \$ 628,820 |

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The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented below. Additions during fiscal 2010 relate to the *Country Crock*® acquisition.

| (in thousands) | July 25, 2010 | | October 25, 2009 | |
|-----------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Proprietary software & technology | \$ 23,650 | \$ (13,302) | \$ 23,800 | \$ (11,467) |
| Formulas & recipes | 22,404 | (11,321) | 17,104 | (9,802) |
| Customer lists/relationships | 22,378 | (9,552) | 19,678 | (7,794) |
| Non-compete covenants | 7,200 | (5,921) | 7,020 | (5,197) |
| Distribution network | 4,120 | (2,848) | 4,120 | (2,541) |
| Other intangibles | 9,740 | (4,674) | 7,230 | (3,691) |
| Total | \$ 89,492 | \$ (47,618) | \$ 78,952 | \$ (40,492) |

Amortization expense was \$2.6 million and \$7.8 million for the third quarter and nine months ended July 25, 2010, respectively, compared to \$2.5 million and \$7.7 million for the third quarter and nine months ended July 26, 2009.

Estimated annual amortization expense (in thousands) for the five fiscal years after October 25, 2009, is as follows:

| | |
|------|-----------|
| 2010 | \$ 10,495 |
| 2011 | 9,384 |
| 2012 | 8,856 |
| 2013 | 7,649 |
| 2014 | 6,253 |

The carrying amounts for indefinite-lived intangible assets are presented in the table below.

| (in thousands) | July 25, 2010 | October 25, 2009 |
|------------------------------|---------------|------------------|
| Brands/tradenames/trademarks | \$ 94,410 | \$ 94,410 |
| Other intangibles | 7,984 | 7,984 |
| Total | \$ 102,394 | \$ 102,394 |

NOTE E EARNINGS PER SHARE DATA

The following table sets forth the denominator for the computation of basic and diluted earnings per share:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|----------------|--------------------|---------------|-------------------|---------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |

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| | | | | |
|---|---------|---------|---------|---------|
| Basic weighted-average shares outstanding | 133,201 | 134,255 | 133,461 | 134,301 |
| Dilutive potential common shares | 1,962 | 1,465 | 1,907 | 1,118 |
| Diluted weighted-average shares outstanding | 135,163 | 135,720 | 135,368 | 135,419 |

For the third quarter and nine months ended July 25, 2010, 1.6 million and 2.3 million weighted average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share, compared to 4.2 million and 5.4 million for the third quarter and nine months ended July 26, 2009.

Table of Contents**NOTE F** **COMPREHENSIVE INCOME**

Components of comprehensive income, net of taxes, are:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Net earnings | \$ 86,364 | \$ 78,095 | \$ 277,168 | \$ 241,372 |
| Other comprehensive income: | | | | |
| Deferred gain (loss) on hedging | 1,729 | (4,455) | (8,868) | (14,860) |
| Reclassification adjustment into net earnings | 4,006 | 8,522 | 16,164 | 23,495 |
| Foreign currency translation | (1,494) | 1,440 | 1,328 | (1,848) |
| Pension and post-retirement benefits | 273 | 4,303 | 6,833 | 1,817 |
| Other comprehensive income | 4,514 | 9,810 | 15,457 | 8,604 |
| Total comprehensive income | 90,878 | 87,905 | 292,625 | 249,976 |
| Comprehensive income attributable to noncontrolling interest | 1,016 | 924 | 2,751 | 2,442 |
| Comprehensive income attributable to Hormel Foods Corporation | \$ 89,862 | \$ 86,981 | \$ 289,874 | \$ 247,534 |

The components of accumulated other comprehensive loss, net of tax, are as follows:

| (in thousands) | July 25, 2010 | October 25, 2009 |
|--------------------------------------|------------------|---------------------|
| Foreign currency translation | \$ 4,687 | \$ 3,381 |
| Pension & other benefits | (187,270) | (194,103) |
| Deferred loss on hedging | (5,592) | (12,888) |
| Accumulated other comprehensive loss | \$ (188,175) | \$ (203,610) |

NOTE G **INVENTORIES**

Principal components of inventories are:

| (in thousands) | July 25, 2010 | October 25, 2009 |
|-----------------------------------|------------------|---------------------|
| Finished products | \$ 441,064 | \$ 402,855 |
| Raw materials and work-in-process | 205,138 | 185,387 |
| Materials and supplies | 144,673 | 134,129 |

| | | | | |
|-------|----|---------|----|---------|
| Total | \$ | 790,875 | \$ | 722,371 |
|-------|----|---------|----|---------|

Table of Contents**NOTE H DERIVATIVES AND HEDGING**

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures contracts and swaps to manage the Company's exposure to price fluctuations in the commodities markets. The Company has determined its hedge programs to be highly effective in offsetting the changes in fair value or cash flows generated by the items hedged.

Cash Flow Hedges: The Company utilizes corn and soybean meal futures to offset the price fluctuation in the Company's future direct grain purchases, and has entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company does not typically hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of July 25, 2010, and October 25, 2009, the Company had the following outstanding commodity futures contracts and swaps that were entered into to hedge forecasted purchases:

| Commodity | July 25, 2010 | Volume | October 25, 2009 |
|--------------|----------------------|--------|----------------------|
| Corn | 26.0 million bushels | | 20.3 million bushels |
| Soybean Meal | 193,800 tons | | 148,100 tons |
| Natural Gas | 2.4 million MMBTU s | | 4.6 million MMBTU s |

As of July 25, 2010, the Company has included in accumulated other comprehensive loss, hedging losses of \$9.0 million (before tax) relating to its positions, compared to losses of \$19.2 million (before tax) as of October 25, 2009. The Company expects to recognize the majority of these losses over the next 12 months.

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statement of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of July 25, 2010, and October 25, 2009, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

| Commodity | July 25, 2010 | Volume | October 25, 2009 |
|--------------|----------------------|--------|----------------------|
| Corn | 10.0 million bushels | | 12.0 million bushels |
| Soybean Meal | N/A | | 6,200 tons |
| Lean Hogs | 1.1 million cwt | | 1.3 million cwt |

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Other Derivatives: During fiscal years 2010 and 2009, the Company has held certain futures contract positions as part of a merchandising program and to manage the Company's exposure to fluctuations in foreign currencies. The Company has not applied hedge accounting to these positions. As of July 25, 2010, and October 25, 2009, the Company had the following outstanding futures contracts related to these programs:

| Commodity | July 25, 2010 | Volume | October 25, 2009 |
|--------------|---------------|--------|------------------|
| Pork Bellies | 2,800 cwt | | 14,800 cwt |

| Currency | July 25, 2010 | Notional Amount | October 25, 2009 |
|------------------|-----------------|-----------------|------------------|
| Canadian Dollars | C\$ 2.7 million | | N/A |
| US Dollars | \$ 0.4 million | | N/A |

Fair Values: The fair values of the Company's derivative instruments (in thousands) as of July 25, 2010, and October 25, 2009, were as follows:

| | Location on Consolidated Statement of Financial Position | July 25, 2010 | Fair Value (1) | October 25, 2009 |
|--|--|------------------|----------------|------------------|
| <u>Asset Derivatives:</u> | | | | |
| Derivatives Designated as Hedges: | | | | |
| Commodity contracts | Other current assets | \$ 21,322 | \$ | 25,159 |
| Derivatives Not Designated as Hedges: | | | | |
| Commodity contracts | Other current assets | 262 | | (3,702) |
| Foreign exchange contracts | Other current assets | 8 | | 0 |
| Total Asset Derivatives | | \$ 21,592 | \$ | 21,457 |
| <u>Liability Derivatives:</u> | | | | |
| Derivatives Designated as Hedges: | | | | |
| Commodity contracts | Accounts payable | \$ 10,251 | \$ | 17,563 |
| Total Liability Derivatives | | \$ 10,251 | \$ | 17,563 |

(1) Amounts represent the gross fair value of derivative assets and liabilities. The Company nets its derivative assets and liabilities, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. See Note I - Fair Value Measurements for a discussion of the net amounts as reported in the Consolidated Statements of Financial Position.

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the third quarter ended July 25, 2010, and July 26, 2009, were as follows:

| | Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Three Months Ended | | Location on Consolidated Statement of Operations | Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Three Months Ended | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (3) Three Months Ended | |
|--------------------------|--|------------------|---|---|------------------|---|------------------|
| | July 25, 2010 | July 26, 2009 | | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Cash Flow Hedges: | | | | | | | |
| Commodity contracts | \$ 2,914 | \$ (5,341) | Cost of products sold | \$ (6,444) | \$ (13,831) | \$ 1,205 | \$ 1,363 |

| | Location on Consolidated Statement of Operations | Gain/(Loss) Recognized in Earnings (Effective Portion) (4) Three Months Ended | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5) Three Months Ended | |
|---------------------------|---|--|------------------|---|------------------|
| | | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Fair Value Hedges: | | | | | |
| Commodity contracts | Cost of products sold | \$ (773) | \$ 11,333 | \$ 12 | \$ (118) |

| | Location on Consolidated Statement of Operations | Gain/(Loss) Recognized in Earnings Three Months Ended | |
|--|---|--|------------------|
| | | July 25, 2010 | July 26, 2009 |
| Derivatives Not Designated as Hedges: | | | |
| Commodity contracts | Cost of products sold | \$ (131) | \$ (154) |
| Foreign exchange contracts | Net sales | \$ 42 | \$ 0 |
| | Interest and investment income | \$ 0 | \$ (141) |

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the nine months ended July 25, 2010, and July 26, 2009, were as follows:

| | Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Nine Months Ended | | Location on Consolidated Statement of Operations | Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Nine Months Ended | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (3) Nine Months Ended | |
|---------------------|---|------------------|---|--|------------------|--|------------------|
| | July 25, 2010 | July 26, 2009 | | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| | Cash Flow Hedges: | | | | | | |
| Commodity contracts | \$ (14,070) | \$ (22,205) | Cost of products sold | \$ (24,312) | \$ (38,131) | \$ 1,239 | \$ 810 |

| | Location on Consolidated Statement of Operations | Gain/(Loss) Recognized in Earnings (Effective Portion) (4) Nine Months Ended | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5) Nine Months Ended | |
|---------------------|---|---|------------------|--|------------------|
| | | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| | | Fair Value Hedges: | | | |
| Commodity contracts | Cost of products sold | \$ (2,121) | \$ 48,949 | \$ 123 | \$ (2,386) |

| | Location on Consolidated Statement of Operations | Gain/(Loss) Recognized in Earnings Nine Months Ended | |
|----------------------------|---|---|------------------|
| | | July 25, 2010 | July 26, 2009 |
| | | Derivatives Not Designated as Hedges: | |
| Commodity contracts | Cost of products sold | \$ (37) | \$ 239 |
| Foreign exchange contracts | Net sales | \$ 42 | \$ 0 |
| | Interest and investment income | \$ 0 | \$ (141) |

- (1) Amounts represent gains or losses in AOCL before tax. See Note F Comprehensive Income for the after tax impact of these gains or losses on net earnings.
- (2) There were no gains or losses excluded from the assessment of hedge effectiveness during the third quarter or nine months.
- (3) There were no gains or losses resulting from the discontinuance of cash flow hedges during the third quarter or nine months.
- (4) Losses on commodity contracts designated as fair value hedges were offset by a corresponding gain on the underlying hedged purchase commitment.
- (5) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the third quarter or nine months.

NOTE I FAIR VALUE MEASUREMENTS

Effective at the beginning of fiscal 2009, the Company adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) for its financial assets and liabilities carried at fair value on a recurring basis in the consolidated financial statements. ASC 820 defines fair

value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820 also establishes a fair value hierarchy which requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

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Level 1: Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than those included in Level 1, based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

Level 3: Unobservable inputs that reflect an entity's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of July 25, 2010, and October 25, 2009, and their level within the fair value hierarchy, are presented in the tables below.

| (in thousands) | Fair Value at July 25, 2010 | Fair Value Measurements at July 25, 2010 | | |
|--|--------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets at Fair Value: | | | | |
| Cash equivalents (1) | \$ 290,411 | \$ 290,411 | \$ | \$ |
| Short-term marketable securities (2) | 50,214 | 807 | 49,407 | |
| Other trading securities (3) | 106,690 | 48,046 | 58,644 | |
| Commodity derivatives (4) | 5,900 | 5,900 | | |
| Foreign exchange contracts (5) | 8 | | 8 | |
| Total Assets at Fair Value | \$ 453,223 | \$ 345,164 | \$ 108,059 | \$ |
| Liabilities at Fair Value: | | | | |
| Commodity derivatives (4) | \$ 10,251 | \$ | \$ 10,251 | \$ |
| Deferred compensation (3) | 38,049 | 10,696 | 27,353 | |
| Total Liabilities at Fair Value | \$ 48,300 | \$ 10,696 | \$ 37,604 | \$ |

| (in thousands) | Fair Value at October 25, 2009 | Fair Value Measurements at October 25, 2009 | | |
|--|--------------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets at Fair Value: | | | | |
| Cash equivalents (1) | \$ 290,476 | \$ 290,476 | \$ | \$ |
| Other trading securities (3) | 103,801 | 49,608 | 54,193 | |
| Commodity derivatives (4) | 6,776 | 6,776 | | |
| Total Assets at Fair Value | \$ 401,053 | \$ 346,860 | \$ 54,193 | \$ |
| Liabilities at Fair Value: | | | | |
| Commodity derivatives (4) | \$ 17,563 | \$ | \$ 17,563 | \$ |
| Deferred compensation (3) | 38,786 | 10,670 | 28,116 | |
| Total Liabilities at Fair Value | \$ 56,349 | \$ 10,670 | \$ 45,679 | \$ |

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The following methods and assumptions were used to estimate the fair value of the financial assets and liabilities above:

(1) The Company's cash equivalents consist of money market funds rated AAA. As these investments have a maturity date of three months or less, the carrying value approximates fair value.

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(2) The Company holds trading securities as part of a portfolio maintained to generate investment income and to provide cash for operations of the Company, if necessary. The portfolio is managed by a third party who is responsible for daily trading activities, and all assets within the portfolio are highly liquid. The cash and highly rated money market funds held by the portfolio are classified as Level 1. The current investment portfolio also includes corporate bonds, agency securities, mortgage-backed securities, and other asset-backed securities for which there is an active, quoted market. Market prices are obtained from a variety of industry standard providers, large financial institutions, and other third-party sources to calculate a representative daily market value, and therefore, these securities are classified as Level 2.

(3) The Company also holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A portion of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these funds is set based on a formula using the yield of the general account investment portfolio that supports the fund, adjusted for expenses and other charges. The rate is guaranteed for one year at issue, and may be reset annually on the policy anniversary, subject to a guaranteed minimum rate. As the value is based on adjusted market rates, and the fixed rate is only reset on an annual basis, these funds are classified as Level 2. The remaining funds held are also managed by a third party, and include equity securities, money market accounts, bond funds, or other portfolios for which there is an active quoted market. Therefore these securities are classified as Level 1. The related deferred compensation liabilities are included in other long term liabilities on the Consolidated Statements of Financial Position and are valued based on the underlying investment selections held in each participant's account. Investment options generally mirror those funds held by the rabbi trust, for which there is an active quoted market. Therefore these investment balances are classified as Level 1. The Company also offers a fixed rate investment option to participants. The rate earned on these investments is adjusted annually based on a specified percentage of the United States Internal Revenue Service (I.R.S.) Applicable Federal Rates in effect and therefore these balances are classified as Level 2.

(4) The Company's commodity derivatives represent futures contracts and swaps used in its hedging programs to offset price fluctuations associated with purchases of corn, soybean meal, and natural gas, and to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The Company's futures contracts for corn and soybean meal are traded on the Chicago Board of Trade (CBOT), while futures contracts for lean hogs and bellies are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore the futures contracts are classified as Level 1. The Company's corn and soybean meal swaps settle based on quoted prices from the CBOT, while natural gas swaps are settled based on quoted prices from the New York Mercantile Exchange. As the swaps settle based on quoted market prices, but are not held directly with the exchange, the swaps are classified as Level 2. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets its derivative assets and liabilities, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each arrangement is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of July 25, 2010, the Company has recognized the obligation to return cash collateral of \$15.7 million to various counterparties. As of October 25, 2009, the Company had recognized the right to reclaim cash collateral of \$2.2 million from, and the obligation to return cash collateral of \$16.9 million to, various counterparties.

(5) The Company periodically uses foreign currency contracts to hedge the impact of fluctuations in exchange rates on certain transactions denominated in foreign currencies. As there is an active market for these currencies, and the fair value of the contracts is calculated using exchange rates and forward rates obtained from a third-party pricing source, the contracts are classified as Level 2.

The Company's financial assets and liabilities also include cash, accounts receivable, accounts payable, and other liabilities, for which carrying value approximates fair value. The Company does not carry its long-term debt at fair value in its Consolidated Statements of Financial Position. Based on borrowing rates available to the Company for long-term financing with similar terms and average maturities, the fair value of long-term debt (including current maturities), utilizing discounted cash flows, was \$369.6 million as of July 25, 2010, and \$383.5 million as of October 25, 2009.

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As discussed in Note A, the FASB allowed deferral of the provisions of ASC 820 for one year for nonfinancial assets and liabilities measured at fair value that are recognized or disclosed on a nonrecurring basis. Pursuant to this allowed deferral, the Company adopted the provisions of ASC 820 at the beginning of fiscal 2010 for its nonfinancial assets and liabilities. During the second quarter of fiscal 2010, the Company made the decision to close its Valley Fresh plant in Turlock, California. The facilities in that location were evaluated during that process and the Company recorded a pretax charge of \$6.6 million to reduce the property, plant and equipment to its current estimated fair value. During the nine months ended July 25, 2010, there were no other material remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

NOTE J**PENSION AND OTHER POST-RETIREMENT BENEFITS**

Net periodic benefit cost for pension and other post-retirement benefit plans consists of the following:

| (in thousands) | Pension Benefits | | | |
|------------------------------------|--------------------|---------------|-------------------|---------------|
| | Three Months Ended | | Nine Months Ended | |
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Service cost | \$ 5,404 | \$ 4,530 | \$ 16,187 | \$ 13,563 |
| Interest cost | 11,957 | 11,788 | 35,545 | 35,405 |
| Expected return on plan assets | (13,521) | (13,074) | (40,565) | (39,222) |
| Amortization of prior service cost | (149) | (154) | (447) | (451) |
| Recognized actuarial loss | 4,128 | 1,291 | 11,889 | 3,965 |
| Settlement charge | | 2,569 | 1,267 | 6,788 |
| Curtailed charge | | | 55 | |
| Net periodic cost | \$ 7,819 | \$ 6,950 | \$ 23,931 | \$ 20,048 |

| (in thousands) | Post-retirement Benefits | | | |
|------------------------------------|--------------------------|---------------|-------------------|---------------|
| | Three Months Ended | | Nine Months Ended | |
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Service cost | \$ 590 | \$ 553 | \$ 1,778 | \$ 1,657 |
| Interest cost | 4,998 | 5,583 | 15,124 | 16,749 |
| Amortization of prior service cost | 1,009 | 1,376 | 3,161 | 4,129 |
| Recognized actuarial loss (gain) | 628 | (210) | 1,794 | (630) |
| Net periodic cost | \$ 7,225 | \$ 7,302 | \$ 21,857 | \$ 21,905 |

During the third quarter of fiscal 2010, the Company made discretionary contributions of \$20.2 million to fund its pension plans. In the second quarter of fiscal year 2010, coincident with the Company's decision to close its Turlock, California facility, it also commenced the process to terminate the defined benefit pension plan for the employees at that facility. The fiscal 2010 settlement and curtailment charges noted above related to that plan termination.

NOTE K**INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at July 25, 2010, recorded in other long-term liabilities was \$39.0 million, of which \$29.5 million would impact the Company's effective tax rate if recognized. The Company includes accrued interest and

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penalties related to uncertain tax positions in income tax expense, with \$0.5 million and \$0.9 million included in expense in the third quarter and nine months, respectively, of fiscal 2010. The amount of accrued interest and penalties at July 25, 2010, associated with unrecognized tax benefits was \$11.9 million.

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The Company is regularly audited by federal and state taxing authorities. During fiscal year 2010, the I.R.S. concluded its examination of the Company's consolidated federal income tax returns for the fiscal years through 2007. The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 1996. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

New health care laws enacted during fiscal year 2010 resulted in a change in the tax treatment of Medicare Part D subsidies received by the Company, and required a reduction in the related deferred tax assets recorded by the Company related to those subsidies. As a result, the Company recorded a \$7.1 million charge to income tax expense during the second quarter of fiscal 2010, primarily related to these new health care laws.

NOTE L

SEGMENT REPORTING

The Company develops, processes, and distributes a wide array of food products in a variety of markets. The Company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and All Other.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results from the Company's MegaMex Foods, LLC (MegaMex) joint venture.

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment and the Affiliated Business Units. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. The Affiliated Business Units include the Farmer John, Burke Corporation, Dan's Prize, Saag's Products, Inc., and Precept Foods businesses. Precept Foods, LLC, is a 51 percent owned joint venture between Hormel Foods Corporation and Cargill Meat Solutions Corporation, a wholly-owned subsidiary of Cargill, Incorporated.

The Jennie-O Turkey Store segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

The Specialty Foods segment includes the Diamond Crystal Brands, Century Foods International, and Hormel Specialty Products operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, liquid portion products, dessert mixes, ready-to-drink products, sports nutrition products, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

The All Other segment includes the Hormel Foods International operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company's international joint ventures and miscellaneous corporate sales.

Intersegment sales are recorded at prices that approximate cost and are eliminated in the Consolidated Statements of Operations. The Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. Equity in earnings of affiliates is included in segment operating profit; however, earnings attributable to the Company's noncontrolling interests are excluded. These items are included below as net interest and investment income, general corporate expense, and noncontrolling interest when reconciling to earnings before income taxes.

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Sales and operating profits for each of the Company's business segments and reconciliation to earnings before income taxes are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent that these segments, if operated independently, would report the operating profit and other financial information shown below.

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 25, 2010 | July 26, 2009 | July 25, 2010 | July 26, 2009 |
| Sales to Unaffiliated Customers | | | | |
| Grocery Products | \$ 235,034 | \$ 209,012 | \$ 753,343 | \$ 692,639 |
| Refrigerated Foods | 950,075 | 847,578 | 2,735,847 | 2,579,064 |
| Jennie-O Turkey Store | 295,862 | 295,381 | 908,364 | 890,165 |
| Specialty Foods | 187,065 | 167,203 | 570,941 | 519,679 |
| All Other | 62,415 | 55,266 | 189,185 | 177,022 |
| Total | \$ 1,730,451 | \$ 1,574,440 | \$ 5,157,680 | \$ 4,858,569 |
| Intersegment Sales | | | | |
| Grocery Products | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Refrigerated Foods | 2,346 | 1,898 | 6,156 | 5,813 |
| Jennie-O Turkey Store | 30,151 | 24,145 | 78,458 | 73,114 |
| Specialty Foods | 38 | 48 | 92 | 151 |
| All Other | 0 | 0 | 0 | 0 |
| Total | \$ 32,535 | \$ 26,091 | \$ 84,706 | \$ 79,078 |
| Intersegment elimination | (32,535) | (26,091) | (84,706) | (79,078) |
| Total | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Net Sales | | | | |
| Grocery Products | \$ 235,034 | \$ 209,012 | \$ 753,343 | \$ 692,639 |
| Refrigerated Foods | 952,421 | 849,476 | 2,742,003 | 2,584,877 |
| Jennie-O Turkey Store | 326,013 | 319,526 | 986,822 | 963,279 |
| Specialty Foods | 187,103 | 167,251 | 571,033 | 519,830 |
| All Other | 62,415 | 55,266 | 189,185 | 177,022 |
| Intersegment elimination | (32,535) | (26,091) | (84,706) | (79,078) |
| Total | \$ 1,730,451 | \$ 1,574,440 | \$ 5,157,680 | \$ 4,858,569 |
| Segment Operating Profit | | | | |
| Grocery Products | \$ 25,596 | \$ 33,215 | \$ 112,788 | \$ 116,527 |
| Refrigerated Foods | 64,539 | 58,291 | 190,250 | 155,731 |
| Jennie-O Turkey Store | 30,664 | 15,920 | 96,100 | 61,847 |
| Specialty Foods | 19,703 | 16,488 | 60,841 | 47,237 |
| All Other | 4,823 | 4,664 | 16,678 | 17,936 |
| Total segment operating profit | \$ 145,325 | \$ 128,578 | \$ 476,657 | \$ 399,278 |
| Net interest and investment income | (6,183) | (553) | (17,452) | (3,951) |
| General corporate expense | (5,705) | (9,974) | (25,459) | (28,018) |
| Noncontrolling interest | 994 | 926 | 2,729 | 2,435 |
| Earnings before income taxes | \$ 134,431 | \$ 118,977 | \$ 436,475 | \$ 369,744 |

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

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company's Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the fiscal year ended October 25, 2009.

RESULTS OF OPERATIONS

Overview

The Company is a processor of branded and unbranded food products for retail, foodservice, and fresh product customers. It operates in five segments as described in Note L in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

The Company earned \$0.63 per diluted share in the third quarter of fiscal 2010, an increase of 10.5 percent compared to \$0.57 per diluted share in the third quarter of fiscal 2009. Significant factors impacting the quarter were:

- Jennie-O Turkey Store reported a substantial profit increase, resulting from operational efficiencies achieved throughout the business.
- Refrigerated Foods profits increased significantly due to continued strong cutout margins in its pork operations.
- Grocery Products profit results were negatively impacted by higher raw material costs for core product lines.
- Specialty Foods profits improved, driven by strong contract packaging volumes and increased sales of private label canned items.
- Net interest and investment income showed notable declines due to lower returns on the Company's rabbi trust investments.

Consolidated Results

Net earnings attributable to the Company for the third quarter of fiscal 2010 increased 10.6 percent to \$85.4 million compared to \$77.2 million in the same quarter of fiscal 2009. Diluted earnings per share for the third quarter increased to \$0.63 from \$0.57 last year. Adjusted net earnings attributable to the Company for the first nine months of fiscal 2010 increased 20.5 percent to \$287.8 million, from \$238.9 million in fiscal 2009.

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Adjusted diluted earnings per share for the same period increased 21.0 percent to \$2.13 compared to \$1.76 last year. On a U.S. GAAP basis, net earnings attributable to the Company for the first nine months of fiscal 2010 increased 14.9 percent to \$274.4 million, from \$238.9 million in fiscal 2009. U.S. GAAP diluted earnings per share for the same period increased 15.3 percent to \$2.03 compared to \$1.76 last year.

The non-GAAP adjusted net earnings financial measurements are provided to assist investors and other readers of the Company's financial statements in better understanding the Company's operating performance by excluding the impact of certain non-recurring items affecting comparability. Non-GAAP measurements are not intended to be a substitute for U.S. GAAP measurements in analyzing financial performance. These non-GAAP measurements are not in accordance with any generally accepted accounting principles and may be different from non-GAAP measurements used by other companies.

Adjusted net earnings for the nine months excludes charges of \$6.3 million (\$0.05 per diluted share) related to the closing of the Company's Valley Fresh plant in Turlock, California, and an income tax charge of \$7.1 million (\$0.05 per diluted share) primarily from the change in tax treatment of Medicare Part D subsidies by the new health care laws enacted. Both charges were incurred in the second quarter of fiscal 2010. The following tables show the calculations to reconcile from adjusted earnings to U.S. GAAP earnings.

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| (in thousands) | Adjusted Earnings | Valley Fresh Plant Closure | Tax items primarily related to health care laws | U.S. GAAP Earnings |
|---|----------------------|-------------------------------------|---|--------------------------|
| Nine Months ended July 25, 2010 | | | | |
| Earnings before income taxes | \$ 446,208 | \$ (9,733) | \$ | \$ 436,475 |
| Income taxes | (155,642) | 3,455 | (7,120) | (159,307) |
| Net earnings | \$ 290,566 | \$ (6,278) | \$ (7,120) | \$ 277,168 |
| | | | | |
| Net earnings attributable to Hormel Foods Corporation | \$ 287,837 | \$ (6,278) | \$ (7,120) | \$ 274,439 |
| | | | | |
| Diluted net earnings per share | \$ 2.13 | \$ (0.05) | \$ (0.05) | \$ 2.03 |

Net sales for the third quarter of fiscal 2010 increased 9.9 percent to \$1.73 billion, versus \$1.57 billion in fiscal 2009. Tonnage increased 2.2 percent to 1.12 billion lbs. for the third quarter compared to 1.10 billion lbs. in the same quarter of last year. Net sales for the first nine months of fiscal 2010 increased 6.2 percent to \$5.16 billion from \$4.86 billion in the first nine months of fiscal 2009. Tonnage for the nine months increased 2.2 percent to 3.46 billion lbs. compared to 3.38 billion lbs. in 2009. All five segments of the Company again reported improved net sales results for the third quarter and first nine months of fiscal 2010, compared to the prior year. Value-added sales have continued to strengthen across the Company during fiscal 2010, partially attributable to successful new item introductions and additional distribution gained on key product lines. Investments in advertising during fiscal 2010 have also benefited sales results for both *Hormel* and *Jennie-O Turkey Store* branded product lines, and this growth is expected to continue through the remainder of fiscal 2010 as additional campaigns are planned. Sales generated by the Company's MegaMex joint venture and the *Country Crock*® side dish acquisition also continued to enhance the top-line results.

Gross profit for the third quarter and first nine months of fiscal 2010 was \$284.9 million and \$883.8 million, respectively, compared to \$260.3 million and \$794.7 million for the same periods last year. Gross profit as a percentage of net sales for the third quarter remained flat compared to the prior year at 16.5 percent, but increased for the first nine months of fiscal 2010 to 17.1 percent, from 16.4 percent for the comparable nine months of fiscal 2009. Gross profit for the nine months of fiscal 2010 includes a charge of \$9.7 million incurred during the second quarter related to the closing of the Company's Valley Fresh plant. Jennie-O Turkey Store again reported substantial margin growth over fiscal 2009, generated primarily by operational improvements throughout the business. Favorable commodity meat and whole bird pricing, as well as lower feed costs, also contributed to margin gains over the prior year. Hog costs remained high during the third quarter, but were offset by ongoing favorable cutout margins in the Company's pork operations. Margins for the Company's value-added businesses continued to be constricted by the higher input costs, most notably in Refrigerated Foods and on pork-based items within Grocery Products. Shipping and handling expenses have also increased throughout fiscal 2010. The higher input costs continue to be a concern entering the fourth quarter, and may negatively impact results if cutout margins do not remain as favorable as in recent quarters. Notable margin improvement has continued for the Specialty Foods segment during both the third quarter and nine months of fiscal 2010, primarily due to improved contract packaging volumes at Century Foods International.

Selling, general and administrative expenses for the third quarter and first nine months of fiscal 2010 were \$146.5 million and \$438.8 million, respectively, compared to \$142.0 million and \$424.4 million last year. As a percentage of net sales, selling, general and administrative expenses for both the third quarter and first nine months decreased to 8.5 percent, compared to 9.0 percent and 8.7 percent for the prior year third quarter and nine months, respectively. Investments in media campaigns supporting the *Hormel* and *Jennie-O Turkey Store* brands have been the primary driver of the increased expense during the current year, and advertising expenses for the full 2010 fiscal year are expected to significantly exceed fiscal 2009 levels. Higher expenses related to travel and professional services have also been experienced by the Company during fiscal 2010 compared to the prior year. The Company expects overall selling, general and administrative expenses to be approximately 8.8 percent of net sales for the remainder of fiscal 2010, primarily due to additional advertising planned for the fourth quarter.

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Equity in earnings of affiliates was \$2.2 million and \$9.0 million for the third quarter and first nine months, respectively, compared to \$1.2 million and \$3.4 million last year. Favorable results from the Company's 50 percent owned MegaMex joint venture have generated the increase for both the third quarter and nine months of fiscal 2010 compared to the prior year.

The effective tax rate for the third quarter and first nine months of fiscal 2010 was 35.8 and 36.5 percent, respectively, compared to 34.4 and 34.7 percent for the comparable quarter and nine months of fiscal 2009. The higher rate for both the third quarter and first nine months of fiscal 2010 is primarily related to a change in the tax treatment of Medicare Part D subsidies, resulting from new health care laws recently enacted. The lower rates in fiscal 2009 also reflected higher returns on the Company's rabbi trust investments compared to the current year, which are not taxable. The Company expects a full-year effective tax rate between 36.0 and 37.0 percent for fiscal 2010.

Segment Results

Net sales and operating profits for each of the Company's segments are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent that these segments, if operated independently, would report the operating profit and other financial information shown below. Additional segment financial information can be found in Note L of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

| (in thousands) | Three Months Ended | | | Nine Months Ended | | |
|---------------------------------------|---------------------|---------------------|-------------|---------------------|---------------------|-------------|
| | July 25, 2010 | July 26, 2009 | % Change | July 25, 2010 | July 26, 2009 | % Change |
| Net Sales | | | | | | |
| Grocery Products | \$ 235,034 | \$ 209,012 | 12.5 | \$ 753,343 | \$ 692,639 | 8.8 |
| Refrigerated Foods | 950,075 | 847,578 | 12.1 | 2,735,847 | 2,579,064 | 6.1 |
| Jennie-O Turkey Store | 295,862 | 295,381 | 0.2 | 908,364 | 890,165 | 2.0 |
| Specialty Foods | 187,065 | 167,203 | 11.9 | 570,941 | 519,679 | 9.9 |
| All Other | 62,415 | 55,266 | 12.9 | 189,185 | 177,022 | 6.9 |
| Total | \$ 1,730,451 | \$ 1,574,440 | 9.9 | \$ 5,157,680 | \$ 4,858,569 | 6.2 |
| Segment Operating Profit | | | | | | |
| Grocery Products | \$ 25,596 | \$ 33,215 | (22.9) | \$ 112,788 | \$ 116,527 | (3.2) |
| Refrigerated Foods | 64,539 | 58,291 | 10.7 | 190,250 | 155,731 | 22.2 |
| Jennie-O Turkey Store | 30,664 | 15,920 | 92.6 | 96,100 | 61,847 | 55.4 |
| Specialty Foods | 19,703 | 16,488 | 19.5 | 60,841 | 47,237 | 28.8 |
| All Other | 4,823 | 4,664 | 3.4 | 16,678 | 17,936 | (7.0) |
| Total segment operating profit | \$ 145,325 | \$ 128,578 | 13.0 | \$ 476,657 | \$ 399,278 | 19.4 |
| Net interest and investment income | (6,183) | (553) | (1,018.1) | (17,452) | (3,951) | (341.7) |
| General corporate expense | (5,705) | (9,974) | 42.8 | (25,459) | (28,018) | 9.1 |
| Noncontrolling interest | 994 | 926 | 7.3 | 2,729 | 2,435 | 12.1 |
| Earnings before income taxes | \$ 134,431 | \$ 118,977 | 13.0 | \$ 436,475 | \$ 369,744 | 18.0 |

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The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results from the Company's MegaMex Foods, LLC (MegaMex) joint venture.

Grocery Products net sales increased 12.5 percent and 8.8 percent for the third quarter and first nine months of fiscal 2010, respectively, compared to the same fiscal 2009 periods. Tonnage increased 16.2 percent for the third quarter and 11.7 percent for the first nine months compared to the prior year. Sales results for the new MegaMex joint venture continued to drive the top-line results for this segment. The incremental sales of Mexican products gained through this joint venture have more than compensated for the discontinued sales of Carapelli olive oil and declines in other core product lines. Excluding both the new MegaMex sales and the discontinued Carapelli sales, net sales for Grocery Products increased 1.9 percent and 1.5 percent for the third quarter and nine months, respectively, compared to fiscal 2009.

Sales results for other key items within Grocery Products were mixed during the third quarter. Sales of *Hormel* chili, *Hormel Mary Kitchen* hash, and bacon toppings increased compared to the third quarter of the prior year. Offsetting those gains were declines in other core lines, including the *SPAM* family of products, *Dinty Moore* stews, and *Hormel Compleats* microwave meals.

Segment profit for Grocery Products decreased 22.9 percent for the third quarter and 3.2 percent for the first nine months of fiscal 2010, compared to fiscal 2009. Adjusted segment profit for Grocery Products for the first nine months of fiscal 2010 increased 5.1 percent compared to the prior year, which excludes a non-recurring charge of \$9.7 million related to the closing of the Company's Valley Fresh plant incurred during the second quarter (see table below). As anticipated, higher raw material costs persisted throughout the third quarter and negatively impacted margin results. Lower profitability was most notable for bacon toppings, the *SPAM* family of products, and chunk meat items. Shipping and handling expenses have also increased throughout fiscal 2010. Improved profitability on chili and positive equity in earnings results from the MegaMex joint venture partially offset the higher costs during the quarter.

The following table shows the calculation to reconcile from adjusted segment profit to U.S. GAAP segment profit for Grocery Products.

| (in thousands) | Adjusted Segment Profit | Valley Fresh Plant Closure | U.S. GAAP Segment Profit |
|--|-------------------------------|-------------------------------------|-----------------------------------|
| Grocery Products Segment Profit | | | |
| Nine months ended July 25, 2010 | \$ 122,521 | \$ (9,733) | \$ 112,788 |

The Company expects margin pressure to continue for Grocery Products due to high raw material costs throughout the remainder of the fiscal year, which may create difficult profit comparisons for the fourth quarter compared to fiscal 2009. The Company continues to evaluate pricing initiatives as an option to improve margins for this segment going forward.

Refrigerated Foods

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment and the Affiliated Business Units. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. The Affiliated Business Units include the Farmer John, Burke Corporation, Dan's Prize, Saag's Products, Inc., and Precept Foods businesses. Precept Foods, LLC, is a 51 percent owned joint venture between Hormel Foods Corporation and Cargill Meat Solutions Corporation, a wholly-owned subsidiary of Cargill, Incorporated.

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Net sales for the Refrigerated Foods segment increased 12.1 percent and 6.1 percent for the third quarter and first nine months of fiscal 2010, respectively, compared to the same periods of fiscal 2009. Tonnage increased 0.4 percent for the third quarter and remained flat for the first nine months, compared to last year. Both retail and foodservice sales strengthened during the quarter. The new *Hormel* brand advertising campaign that started during the second quarter continued to benefit top-line results.

Segment profit for Refrigerated Foods increased 10.7 percent and 22.2 percent for the third quarter and first nine months of fiscal 2010, respectively, compared to the prior year. The Company processed 2.22 million hogs during the third quarter, which decreased from 2.27 million in the prior year. Strong cutout margins continued throughout the third quarter, resulting in significant profit gains for the Company's pork operations compared to fiscal 2009. However, a lower hog supply and increased demand kept pork primal costs at an elevated level, which reduced margins for this segment's value-added businesses and partially offset the gains achieved in operations. Recent pricing initiatives were also able to mitigate a portion of the higher input costs.

The Company's continued focus on value-added sales growth was again evident in the third quarter. In the Meat Products business unit, sales of *Hormel* party trays and *Lloyd's* barbeque products were strong, and new items such as snack *Stix* and *Minis* continued to drive sales of *Hormel* pepperoni. Sales of retail pork items, such as *Hormel Always Tender* and *Hormel Natural Choice* fresh pork also showed improvement over the prior year. The Foodservice business unit was also successful in growing branded value-added product sales during the third quarter, with notable gains over the prior year reported for *Natural Choice* deli meats, *Austin Blues* barbeque products, *Café h* ethnic products, and pizza toppings. The Affiliated Business Units also reported a net sales increase for the third quarter, with the largest gains attributable to the Farmer John and Precept Foods businesses.

This segment also continues to benefit from the integration of the recently acquired *Country Crock*® chilled side dish business. Efforts to capture synergies and to co-market the side dishes as a complement to the Company's *Hormel* refrigerated entrées and *Lloyd's* barbeque product lines have been successful, with results meeting expectations to date. *Country Crock*® remains a registered trademark of the Unilever Group of Companies and is being used under license.

The Company expects pork raw material costs to remain high entering the fourth quarter, driven by reduced harvest levels, lower inventories, and increased demand. Cutout margins have remained strong thus far, but may not remain as favorable beyond the short-term, which could reduce margins for Refrigerated Foods. Additional pricing initiatives may alleviate some of the margin pressure, but will likely impact volumes for the remainder of the fiscal year.

Jennie-O Turkey Store

The Jennie-O Turkey Store (JOTS) segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

JOTS net sales increased 0.2 percent and 2.0 percent for the third quarter and the first nine months of fiscal 2010, respectively, versus the comparable periods of fiscal 2009. As expected, tonnage decreased 5.7 percent for the third quarter and 0.3 percent for the first nine months, compared to fiscal 2009 results. Year to date for fiscal 2010, improved value-added sales have offset declines in commodity and whole bird sales. Overall, value-added sales have increased 7.1 percent and 5.2 percent for the third quarter and nine months, respectively, compared to

fiscal 2009.

JOTS has continued to experience excellent profitability throughout fiscal 2010, with segment profit up 92.6 percent for the third quarter and 55.4 percent for the first nine months, compared to the prior year. Operating efficiencies achieved across all areas of the business continued to drive the profitability gains, including improvements throughout the entire supply chain, as well as reduced production costs. Despite reduced tonnage, higher commodity meat and whole bird pricing has also increased margins on a year-over-year basis. Feed costs were favorable during the third quarter, which also contributed to the improved profitability for JOTS compared to fiscal 2009.

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JOTS has continued to build momentum across its value-added businesses during fiscal 2010, with the third quarter again showing growth in all three of the retail, deli, and foodservice business units. Sales of *Jennie-O Turkey Store* rotisserie deli products and retail tray pack items remained particularly strong. Significant investments in media campaigns were made to support the *Jennie-O Turkey Store* brand during the third quarter, and additional initiatives are planned for the fourth quarter which should continue to enhance sales results.

Entering the fourth quarter, production cuts taken in prior quarters have returned the industry to a much improved balance between supply and demand, and have significantly improved commodity turkey prices. These market conditions are expected to remain throughout the end of 2010. However, recent grain price volatility continues to be a concern. Based on current conditions, the Company anticipates substantial year over year growth for JOTS through the end of the fiscal year.

Specialty Foods

The Specialty Foods segment includes the Diamond Crystal Brands (DCB), Century Foods International (CFI), and Hormel Specialty Products (HSP) operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, liquid portion products, dessert mixes, ready-to-drink products, sports nutrition products, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

Specialty Foods net sales increased 11.9 percent for the third quarter and 9.9 percent for the first nine months of fiscal 2010, respectively, compared to the same periods of fiscal 2009. Tonnage increased 11.7 percent for the third quarter and 6.9 percent for the first nine months, compared to the prior year. Specialty Foods segment profit increased 19.5 percent in the third quarter and 28.8 percent for the first nine months, compared to fiscal 2009 results.

All three operating segments within Specialty Foods have contributed to the improved sales and profit results throughout fiscal 2010. During the third quarter, CFI continued to report the largest year-over-year gains, driven by increased contract packaging volumes for sports nutrition products and ready-to-drink items. HSP also experienced strong sales of private label canned items, but increased raw material costs reduced margins for this business. DCB growth was more modest for the quarter, as increased sales of sugar items and liquid portion products were partially offset by declines in nutritional food products.

Entering the fourth quarter, sales of private label canned products are expected to remain strong. CFI's contract packaging is also expected to continue its momentum through the remainder of the fiscal year. However, continued high input costs are negatively impacting margins and the competitive pricing environment remains a concern.

All Other

The All Other segment includes the Hormel Foods International (HFI) operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company's international joint ventures and miscellaneous corporate

sales.

All Other net sales increased 12.9 percent and 6.9 percent for the third quarter and first nine months of fiscal 2010, respectively, as compared to fiscal 2009. Strong export sales of HFI consumer products, especially the *SPAM* family of products, were able to offset continued weak fresh pork export sales. Segment profit increased 3.4 percent for the third quarter and decreased 7.0 percent for the first nine months of fiscal 2010, respectively, compared to prior year results. As expected, raw material costs remained high and demand continued to be weak in our key export markets during the third quarter, which reduced our pork export margins. These market conditions will likely be a concern throughout the remainder of the fiscal year. The Company's international joint ventures also reported lower profit results overall compared to the prior year. Favorable currencies, reduced expenses, improved margins on consumer products, and increased profits for the Company's China operations were able to offset the higher costs, resulting in a slight profit increase for the third quarter compared to fiscal 2009.

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Unallocated Income and Expenses

The Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. Equity in earnings of affiliates is included in segment operating profit; however, earnings attributable to the Company's noncontrolling interests are excluded. These items are included in the segment table for the purpose of reconciling segment results to earnings before income taxes.

Net interest and investment income for the third quarter and first nine months of fiscal 2010 represented a net expense of \$6.2 million and \$17.5 million, respectively, compared to a net expense of \$0.6 million and \$4.0 million for the comparable quarter and nine months of fiscal 2009. The increased net expense for fiscal 2010 primarily represents lower returns on the Company's rabbi trust for supplemental executive retirement plans and deferred income plans, as the Company has transitioned the majority of this portfolio to more fixed return investments to reduce the exposure to volatility in equity markets. The higher fiscal 2010 expense is also due to increased amortization related to the Company's affordable housing investments. Additionally, fiscal 2009 results for the nine months included a \$3.6 million pretax gain recognized on the dissolution of the Company's Carapelli USA, LLC joint venture. Interest expense of \$19.6 million for the first nine months of fiscal 2010 has decreased from \$21.3 million in the prior year due to outstanding borrowings against the Company's line of credit during fiscal 2009. The Company anticipates that interest expense will approximate \$26.0 million for fiscal 2010.

General corporate expense for the third quarter and first nine months of fiscal 2010 was \$5.7 million and \$25.5 million, respectively, compared to \$10.0 million and \$28.0 million for the comparable periods of fiscal 2009. Lower expenses for the third quarter primarily represent decreased medical and employee compensation related costs compared to the prior year.

Net earnings attributable to the Company's noncontrolling interests were \$1.0 million and \$2.7 million for the third quarter and nine months of fiscal 2010, compared to \$0.9 million and \$2.4 million, respectively, for the comparable periods of fiscal 2009. The increases for fiscal 2010 primarily reflect improved performance from the Company's Precept Foods business.

Related Party Transactions

There has been no material change in the information regarding Related Party Transactions that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2009.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$376.9 million at the end of the third quarter of fiscal year 2010 compared to \$295.1 million at the end of the comparable fiscal 2009 period.

Cash provided by operating activities was \$271.6 million in the first nine months of fiscal 2010 compared to \$332.1 million in the same period of fiscal 2009. Increased earnings in fiscal 2010 have significantly improved operating cash flows compared to the prior year. However, unfavorable changes in working capital balances, primarily increased accounts receivable and inventory balances compared to fiscal 2009, have more than offset the cash provided by earnings. Additionally, the Company made a discretionary contribution of \$20.2 million in the third quarter of fiscal 2010 to fund its pension plans, compared to a contribution of \$55.0 million in the third quarter of fiscal 2009.

Cash used in investing activities increased to \$169.5 million in the first nine months of fiscal 2010 from \$60.2 million in the comparable period of fiscal 2009. Fiscal 2010 includes a \$50.0 million investment in marketable securities during the second quarter. Other significant outflows for fiscal 2010 include the acquisition of the *Country Crock*® chilled side dish line and the Company's investment in the MegaMex joint venture. Fixed asset expenditures in the first nine months of fiscal 2010 have declined to \$63.8 million from \$71.0 million in the comparable period of fiscal 2009. The Company currently estimates its fiscal 2010 fixed asset expenditures to be approximately \$90.0 million.

Cash used in financing activities was \$110.5 million in the first nine months of fiscal 2010 compared to \$131.6 million in the same period of fiscal 2009. The Company used \$53.2 million for common stock repurchases in first nine months of fiscal 2010, compared to \$13.9 million in the same period of the prior year. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds. The increased outflows related the share repurchases were offset by additional cash flows of \$21.1 million generated by the Company's stock option plan during the current year, as well as a \$40.0 million payment on short-term debt and a distribution to the Company's noncontrolling interest in fiscal 2009, both of which did not reoccur in fiscal 2010.

Cash dividends paid to the Company's shareholders also continue to be a significant financing activity for the Company. Dividends paid in the first nine months of 2010 were \$81.4 million compared to \$75.9 million in the comparable period of fiscal 2009. For fiscal 2010, the annual dividend rate was increased to \$0.84 per share, representing the 44th consecutive annual dividend increase. The Company has paid dividends for 328 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and balance sheet position. At the end of the third quarter of fiscal 2010, the Company was in compliance with all of these debt covenants. The Company's long-term debt of \$350.0 million was reclassified to current maturities during the third quarter of fiscal 2010, and is scheduled to be repaid during the third quarter of fiscal 2011.

Cash flow from operating activities provides the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flow from this source in the foreseeable future because the Company operates in a relatively stable industry and has strong products across many product lines. The Company's prior revolving credit facility of \$200.0 million was replaced with a new revolving credit facility of \$300.0 million, effective May 25, 2010.

The Company has maintained a very strong cash position throughout fiscal 2010. The Company's priorities remain investing in the business and returning value to its shareholders, as evidenced by a consistent history of dividend increases. Timing of projects has caused capital spending to be lower than expected to date for fiscal year 2010, but it is likely to return to more normalized levels in upcoming quarters. Additional share repurchases and strategic acquisitions to complement existing product portfolios always remain as options being considered as a use of free cash flows.

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Contractual Obligations and Commercial Commitments

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at July 25, 2010, was \$39.0 million.

There have been no other material changes to the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2009.

Off-Balance Sheet Arrangements

The Company currently provides a renewable standby letter of credit for \$4.8 million to guarantee obligations that may arise under workers compensation claims of an affiliated party. This potential obligation is not reflected in the Company's Consolidated Statement of Financial Position.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking information within the meaning of the federal securities laws. The forward-looking information may include statements concerning the Company's outlook for the future as well as other statements of beliefs, future plans, strategies, or anticipated events and similar expressions concerning matters that are not historical facts.

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is filing this cautionary statement in connection with the Reform Act. When used in the Company's Annual Report to Stockholders, filings by the Company with the Securities and Exchange Commission (the Commission), the Company's press releases, and oral statements made by the Company's representatives, the words or phrases should result, believe, intend, plan, are expected to, targeted, will continue, will approximate, is anticipated, estimate, project, or similar expressions are intended to identify forward-looking statements within the meaning of the Reform Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those anticipated or projected.

In connection with the safe harbor provisions of the Reform Act, the Company is identifying risk factors that could affect financial performance and cause the Company's actual results to differ materially from opinions or statements expressed with respect to future periods. The discussion of risk factors in Part II, Item 1A of this Quarterly Report on Form 10-Q contains certain cautionary statements regarding the Company's business, which should be considered by investors and others. Such risk factors should be considered in conjunction with any discussions of operations or results by the Company or its representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company.

In making these statements, the Company is not undertaking, and specifically declines to undertake, any obligation to address or update each or any factor in future filings or communications regarding the Company's business or results, and is not undertaking to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. Though the Company has attempted to list comprehensively these important cautionary risk factors, the Company wishes to caution investors and others that other factors may in the future prove to be important in affecting the Company's business or results of operations.

The Company cautions readers not to place undue reliance on forward-looking statements, which represent current views as of the date made. Forward-looking statements are inherently at risk to any changes in the national and worldwide economic environment, which could include, among other things, economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company and its markets.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hog Markets: The Company's earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 10 years. Purchased hogs under contract accounted for 94 percent and 92 percent of the total hogs purchased by the Company during the first nine months of fiscal 2010 and 2009, respectively. The majority of these contracts use market-based formulas based on hog futures, hog primal values, or industry reported hog markets. Under normal, long-term market conditions, changes in the cash hog market are offset by proportional changes in primal values. Therefore, a hypothetical 10 percent change in the cash hog market would have had an immaterial effect on the Company's results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statement of Financial Position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of July 25, 2010, was \$(4.4) million compared to \$(1.8) million as of October 25, 2009.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's July 25, 2010, open contracts by \$8.2 million, which in turn would lower the Company's future cost of purchased hogs by a similar amount.

Turkey and Hog Production Costs: The Company raises or contracts for live turkeys and hogs to meet some of its raw material supply requirements. Production costs in raising turkeys and hogs are subject primarily to fluctuations in feed prices, and to a lesser extent, fuel costs. Under normal, long-term market conditions, changes in the cost to produce turkeys and hogs are offset by proportional changes in their respective markets.

To reduce the Company's exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future direct grain purchases. This program utilizes corn and soybean meal futures and swaps, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized loss of \$0.9 million, before tax, on the Consolidated Statement of Financial Position as of July 25, 2010, compared to an unrealized loss of \$3.0 million, before tax, as of October 25, 2009.

The Company measures its market risk exposure on its grain futures contracts and swaps using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's July 25, 2010, open grain contracts by \$16.0 million, which in turn would lower the Company's future cost on purchased grain by a similar amount.

Natural Gas: Production costs at the Company's plants and feed mills are also subject to fluctuations in fuel costs. To reduce the Company's exposure to changes in natural gas prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future natural gas purchases. This program utilizes natural gas swaps, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized loss of \$7.5 million, before tax, on the Consolidated Statement of Financial Position as of July 25, 2010, compared to an unrealized loss of \$10.9 million, before tax, as of October 25, 2009.

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The Company measures its market risk exposure on its natural gas contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for natural gas. A 10 percent decrease in the market price for natural gas would have negatively impacted the fair value of the Company's July 25, 2010, open natural gas contracts by \$1.2 million, which in turn would lower the Company's future cost on natural gas purchases by a similar amount.

Long-Term Debt: A principal market risk affecting the Company is the exposure to changes in interest rates on the Company's fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately \$0.4 million. The fair value of the Company's long-term debt (including current maturities) was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

Investments: The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, and as part of an investment portfolio. As of July 25, 2010, the balance of these securities totaled \$156.9 million. A portion of these securities represent fixed income funds. The Company is subject to market risk due to fluctuations in the value of the remaining investments, as unrealized gains and losses associated with these securities are included in the Company's net earnings on a mark-to-market basis. A 10 percent decline in the value of the investments not held in fixed income funds would have a direct negative impact to the Company's pretax earnings of approximately \$9.8 million, while a 10 percent increase in value would have a positive impact of the same amount.

International: While the Company does have international operations and operates in international markets, it considers its market risk in such activities to be immaterial.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information the Company is required to disclose in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Internal Controls.

During the third quarter of fiscal year 2010, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal proceedings related to the on-going operation of its business. The resolution of any currently known matters is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

Item 1A. Risk Factors

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

The food products manufacturing industry is subject to the risks posed by:

- food spoilage;
- food contamination caused by disease-producing organism or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and generic *E. coli*;
- nutritional and health-related concerns;
- federal, state, and local food processing controls;
- consumer product liability claims;
- product tampering; and
- the possible unavailability and/or expense of liability insurance.

The pathogens which may cause food contamination are found generally in the environment and thus may be present in our products as a result of food processing. These pathogens also can be introduced to our products as a result of improper handling by customers or consumers. We do not have control over proper handling procedures once our products have been shipped for distribution. If one or more of these risks were to materialize, the Company's brand and business reputation could be negatively impacted. In addition, revenues could decrease, costs of doing business could increase, and the Company's operating results could be adversely affected.

Deterioration of economic conditions could harm the Company's business.

The Company's business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions. Decreases in consumer spending rates and shifts in consumer product preferences could also negatively impact the Company.

The recent volatility in financial markets and the deterioration of national and global economic conditions could impact the Company's operations as follows:

- The financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for the Company or non-performance by suppliers;
- The value of our investments in debt and equity securities may decline, including most significantly the Company's trading securities held as part of a rabbi trust to fund supplemental executive retirement plans and deferred income plans, and the Company's assets held in pension plans; and

The Company also utilizes hedging programs to reduce its exposure to various commodity market risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in the Company's earnings each period. These instruments may also limit the Company's ability to benefit from market gains if commodity prices become more favorable than those that have been secured under the Company's hedging programs.

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Additionally, if a high pathogenic disease outbreak developed in the United States, it may negatively impact the national economy, demand for Company products, and/or the Company's workforce availability, and the Company's financial results could suffer. The Company has developed contingency plans to address infectious disease scenarios and the potential impact on its operations, and will continue to update these plans as necessary. There can be no assurance given, however, that these plans will be effective in eliminating the negative effects of any such diseases on the Company's operating results.

Fluctuations in commodity prices of pork, poultry, and feed ingredients could harm the Company's earnings.

The Company's results of operations and financial condition are largely dependent upon the cost and supply of pork, poultry, and feed grains as well as the selling prices for many of our products, which are determined by constantly changing market forces of supply and demand.

The live hog industry has evolved to very large, vertically integrated, year-round confinement operations operating under long-term supply agreements. This has resulted in fewer hogs being available on the cash spot market. Additionally, overall hog production has declined. The decrease in the supply of live hogs could diminish the utilization of harvest facilities and increase the cost of the raw materials they produce. Consequently, the Company uses long-term supply contracts to ensure a stable supply of raw materials while minimizing extreme fluctuations in costs over the long term. This may result, in the short term, in costs for live hogs that are higher than the cash spot market depending on the relationship of the cash spot market to contract prices. Market-based pricing on certain product lines, and lead time required to implement pricing adjustments, may prevent these cost increases from being recovered, and these higher costs could adversely affect our short-term financial results.

Jennie-O Turkey Store raises turkeys and also contracts with turkey growers to meet its raw material requirements for whole birds and processed turkey products. Additionally, the Company owns various hog raising facilities that supplement its supply of raw materials. Results in these operations are affected by the cost and supply of feed grains, which fluctuate due to climate conditions, production forecasts, and supply and demand conditions at local, regional, national, and worldwide levels. The Company attempts to manage some of its short-term exposure to fluctuations in feed prices by using futures contracts and pursuing pricing advances. However, these strategies may not be adequate to overcome sustained increases in market prices due to alternate uses for feed grains or other systemic changes in the industry.

Outbreaks of disease among livestock and poultry flocks could harm the Company's revenues and operating margins.

The Company is subject to risks associated with the outbreak of disease in pork and beef livestock, and poultry flocks, including Bovine Spongiform Encephalopathy (BSE), pneumo-virus, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), Foot-and-Mouth Disease (FMD), and Avian Influenza. The outbreak of disease could adversely affect the Company's supply of raw materials, increase the cost of production, and reduce operating margins. Additionally, the outbreak of disease may hinder the Company's ability to market and sell products both domestically and internationally. The Company has developed business continuity plans for various disease scenarios and will continue to update these plans as necessary. There can be no assurance given, however, that these plans will be effective in eliminating the negative effects of any such diseases on the Company's operating results.

Market demand for the Company's products may fluctuate due to competition from other producers.

The Company faces competition from producers of alternative meats and protein sources, including beef, chicken, and fish. The bases on which the Company competes include:

- price;
- product quality;
- brand identification;
- breadth of product line; and
- customer service.

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Demand for the Company's products is also affected by competitors' promotional spending and the effectiveness of the Company's advertising and marketing programs. The Company may be unable to compete successfully on any or all of these bases in the future.

The Company's operations are subject to the general risks associated with acquisitions.

The Company has made several acquisitions in recent years and regularly reviews opportunities for strategic growth through acquisitions. Potential risks associated with acquisitions include the inability to integrate new operations successfully, the diversion of management's attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, potential impairment charges if purchase assumptions are not achieved or market conditions decline, and the inherent risks in entering markets or lines of business in which the Company has limited or no prior experience. Any or all of these risks could impact the Company's financial results and business reputation. In addition, acquisitions outside the United States may present unique challenges and increase the Company's exposure to the risks associated with foreign operations.

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

The Company is involved on an ongoing basis in litigation arising in the ordinary course of business. Trends in litigation may include class actions involving competitors, consumers, shareholders, or injured persons, and claims relating to patent infringement, labor, employment, or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could adversely affect the Company's financial results.

Government regulation, present and future, exposes the Company to potential sanctions and compliance costs that could adversely affect the Company's business.

The Company's operations are subject to extensive regulation by the U.S. Department of Homeland Security, the U.S. Department of Agriculture, the U.S. Food and Drug Administration, federal and state taxing authorities, and other state and local authorities that oversee workforce immigration laws, tax regulations, food safety standards, and the processing, packaging, storage, distribution, advertising, and labeling of the Company's products. The Company's manufacturing facilities and products are subject to constant inspection by federal, state, and local authorities. Claims or enforcement proceedings could be brought against the Company in the future. Additionally, the Company is subject to new or modified laws, regulations, and accounting standards. The Company's failure or inability to comply with such requirements could subject the Company to civil remedies, including fines, injunctions, recalls, or seizures, as well as potential criminal sanctions.

The Company is subject to stringent environmental regulation and potentially subject to environmental litigation, proceedings, and investigations.

The Company's past and present business operations and ownership and operation of real property are subject to stringent federal, state, and local environmental laws and regulations pertaining to the discharge of materials into the environment, and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Compliance with these laws and regulations, and

the ability to comply with any modifications to these laws and regulations, is material to the Company's business. New matters or sites may be identified in the future that will require additional investigation, assessment, or expenditures. In addition, some of the Company's facilities have been in operation for many years and, over time, the Company and other prior operators of these facilities may have generated and disposed of wastes that now may be considered hazardous. Future discovery of contamination of property underlying or in the vicinity of the Company's present or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur additional expenses. The occurrence of any of these events, the implementation of new laws and regulations, or stricter interpretation of existing laws or regulations, could adversely affect the Company's financial results.

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The Company's foreign operations pose additional risks to the Company's business.

The Company operates its business and markets its products internationally. The Company's foreign operations are subject to the risks described above, as well as risks related to fluctuations in currency values, foreign currency exchange controls, compliance with foreign laws, and other economic or political uncertainties. International sales are subject to risks related to general economic conditions, imposition of tariffs, quotas, trade barriers and other restrictions, enforcement of remedies in foreign jurisdictions and compliance with applicable foreign laws, and other economic and political uncertainties. All of these risks could result in increased costs or decreased revenues, which could adversely affect the Company's financial results.

Deterioration of labor relations or increases in labor costs could harm the Company's business.

The Company has approximately 18,500 employees, of which approximately 6,100 are represented by labor unions, principally the United Food and Commercial Workers Union. A significant increase in labor costs or a deterioration of labor relations at any of the Company's facilities that results in work slowdowns or stoppages could harm the Company's financial results. There are no union contracts scheduled to expire during the remainder of fiscal 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2010**

| Period | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2) |
|-------------------------------|-------------------------------------|------------------------------|---|---|
| April 26, 2010 – May 30, 2010 | 327,800 | \$ 39.91 | 327,800 | 5,039,155 |
| May 31, 2010 – June 27, 2010 | 224,155 | 40.25 | 224,155 | 4,815,000 |
| June 28, 2010 – July 25, 2010 | 30,558 | 40.66 | 30,500 | 4,784,500 |
| Total | 582,513 | \$ 40.08 | 582,455 | |

(1) The 58 shares repurchased during the quarter, other than through publicly announced plans or programs, represent purchases for the Company's employee awards program.

(2) On October 2, 2002, the Company announced that its Board of Directors had authorized the Company to repurchase up to 10,000,000 shares of common stock with no expiration date. During the third quarter of fiscal 2010, the 366,955 shares remaining under this program were purchased, which fully depleted the 10,000,000 share authorization. On May 26, 2010, the Company announced that its Board of Directors had authorized the Company to repurchase an additional 5,000,000 shares of common stock with no expiration date. During the third quarter of fiscal 2010, 215,500 shares were purchased under this new authorization.

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Item 6. Exhibits

| | |
|---------|---|
| 31.1 | Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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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.

HORMEL FOODS CORPORATION

(Registrant)

Date: September 3, 2010

By /s/ JODY H. FERAGEN
JODY H. FERAGEN
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 3, 2010

By /s/ JAMES N. SHEEHAN
JAMES N. SHEEHAN
Vice President and Controller
(Duly Authorized Officer)