

HORMEL FOODS CORP /DE/

Form 10-Q

June 05, 2009

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## **UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

## Form 10-Q

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

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

For the quarterly period ended April 26, 2009

or

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

For the transition period from to

Commission File Number: 1-2402

## **HORMEL FOODS CORPORATION**

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(Exact name of registrant as specified in its charter)

**Delaware**

(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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

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Class	Outstanding at May 31, 2009	
Common Stock	\$.0586 par value	134,259,729
Common Stock Non-Voting	\$.01 par value	-0-

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**PART I FINANCIAL INFORMATION**



**Item 1. Financial Statements**

**HORMEL FOODS CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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(In Thousands of Dollars)

	April 26, 2009 (Unaudited)	October 26, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 312,331	\$ 154,778
Accounts receivable	344,925	411,010
Inventories	748,178	784,542
Deferred income taxes	47,565	45,948
Prepaid expenses and other current assets	33,297	41,900
<b>TOTAL CURRENT ASSETS</b>	<b>1,486,296</b>	<b>1,438,178</b>
<b>DEFERRED INCOME TAXES</b>	<b>89,789</b>	<b>89,249</b>
<b>GOODWILL</b>	<b>619,705</b>	<b>619,325</b>
<b>OTHER INTANGIBLES</b>	<b>146,047</b>	<b>151,219</b>
<b>PENSION ASSETS</b>	<b>81,785</b>	<b>91,773</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>80,590</b>	<b>93,617</b>
<b>OTHER ASSETS</b>	<b>165,577</b>	<b>155,453</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	52,945	52,940
Buildings	672,588	662,519
Equipment	1,311,505	1,275,175
Construction in progress	68,691	78,083
	2,105,729	2,068,717
Less allowance for depreciation	(1,141,750)	(1,091,060)
	963,979	977,657
<b>TOTAL ASSETS</b>	<b>\$ 3,633,768</b>	<b>\$ 3,616,471</b>

See Notes to Consolidated Financial Statements

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

	April 26, 2009 (Unaudited)	October 26, 2008
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 276,744	\$ 378,520
Notes payable/Short-term debt	100,000	100,000
Accrued expenses	94,339	72,192
Accrued workers compensation	29,568	26,825
Accrued marketing expenses	71,307	60,223
Employee compensation	84,092	106,225
Taxes, other than federal income taxes	9,477	6,979
Dividends payable	25,579	24,946
Federal income taxes	4,554	5,323
<b>TOTAL CURRENT LIABILITIES</b>	<b>695,660</b>	<b>781,233</b>
<b>LONG-TERM DEBT less current maturities</b>	<b>350,000</b>	<b>350,000</b>
<b>PENSION AND POST-RETIREMENT BENEFITS</b>	<b>395,204</b>	<b>386,590</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>87,388</b>	<b>91,076</b>
<b>SHAREHOLDERS' INVESTMENT</b>		
Preferred stock, par value \$.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value \$.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value \$.0586 a share authorized 400,000,000 shares; issued 134,281,577 shares April 26, 2009		
issued 134,520,581 shares October 26, 2008	7,869	7,883
Additional paid-in capital	3,856	0
Accumulated other comprehensive loss	(112,931)	(113,184)
Retained earnings	2,206,722	2,112,873
<b>TOTAL SHAREHOLDERS' INVESTMENT</b>	<b>2,105,516</b>	<b>2,007,572</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>	<b>\$ 3,633,768</b>	<b>\$ 3,616,471</b>

See Notes to Consolidated Financial Statements

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**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008*	April 26, 2009	April 27, 2008*
Net sales	\$ 1,595,043	\$ 1,594,084	\$ 3,284,129	\$ 3,215,249
Cost of products sold	1,333,005	1,330,132	2,749,776	2,658,606
GROSS PROFIT	262,038	263,952	534,353	556,643
Selling, general and administrative	139,846	140,220	282,371	284,311
Equity in earnings of affiliates	770	821	674	3,190
OPERATING INCOME	122,962	124,553	252,656	275,522
Other income and expense:				
Interest and investment income (loss)	8,584	3,253	10,975	(1,685)
Interest expense	(6,918)	(6,429)	(14,373)	(13,149)
EARNINGS BEFORE INCOME TAXES	124,628	121,377	249,258	260,688
Provision for income taxes	44,243	43,816	87,490	94,946
NET EARNINGS	\$ 80,385	\$ 77,561	\$ 161,768	\$ 165,742
NET EARNINGS PER SHARE:				
BASIC	\$ 0.60	\$ 0.57	\$ 1.20	\$ 1.22
DILUTED	\$ 0.59	\$ 0.56	\$ 1.20	\$ 1.20
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	134,272	135,652	134,325	135,679
DILUTED	135,373	137,620	135,268	137,643
DIVIDENDS DECLARED PER SHARE:	\$ 0.190	\$ 0.185	\$ 0.380	\$ 0.370

\* Includes retrospective reclassification of shipping and handling expenses to cost of products sold from selling, general and administrative (See Note A).

See Notes to Consolidated Financial Statements



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**HORMEL FOODS CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In Thousands of Dollars)**

**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>April 26, 2009</b>	<b>April 27, 2008</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 161,768	\$ 165,742
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	57,322	57,823
Amortization of intangibles	5,172	6,148
Equity in earnings of affiliates	(2,183)	(4,587)
Provision for deferred income taxes	(4,417)	(8,492)
Loss on property/equipment sales and plant facilities	160	1,377
Gain on dissolution of joint venture	(3,634)	0
Non-cash investment activities	(5,034)	4,600
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	74,934	15,057
Decrease (Increase) in inventories, prepaid expenses, and other current assets	60,753	(85,392)
Decrease (Increase) in pension assets	3,028	(398)
Decrease in accounts payable, accrued expenses, and pension and post-retirement benefits	(95,733)	(32,346)
Other	6,816	243
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>258,952</b>	<b>119,775</b>
<b>INVESTING ACTIVITIES</b>		
Sale of available-for-sale securities	6,270	146,308
Purchase of available-for-sale securities	(2,371)	(155,207)
Acquisitions of businesses/intangibles	(580)	(3,920)
Purchases of property/equipment	(45,821)	(67,941)
Proceeds from sales of property/equipment	2,017	1,604
(Increase) Decrease in investments, equity in affiliates, and other assets	(1,581)	7,700
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(42,066)</b>	<b>(71,456)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term debt	0	25,000
Principal payments on short-term debt	0	(70,000)
Principal payments on long-term debt	0	(54)
Dividends paid on common stock	(50,376)	(45,469)
Share repurchase	(10,375)	(21,927)
Proceeds from exercise of stock options	1,459	10,739
Other	(41)	10,799
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(59,333)</b>	<b>(90,912)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>157,553</b>	<b>(42,593)</b>
Cash and cash equivalents at beginning of year	154,778	149,749
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 312,331</b>	<b>\$ 107,156</b>





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**HORMEL FOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In Thousands of Dollars, Except Per Share Amounts)**

**(Unaudited)**

**NOTE A**

**GENERAL**

**Basis of Presentation**



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The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 26, 2008, 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 26, 2008.

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. The reclassifications had no impact on net earnings as previously reported.

### **Change in Accounting Principle**



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In the first quarter of fiscal 2009, the Company changed its method of accounting for shipping and handling expenses and reclassified them from selling, general and administrative to cost of products sold. This presentation is preferable because the inclusion of shipping and handling expenses in cost of products sold better reflects the cost of producing and distributing the Company's products. It also enhances the comparability of the financial statements with our industry peers. As required by U.S. generally accepted accounting principles, the change has been reflected in the Consolidated Statements of Operations through retrospective application of the change in accounting principle. The change resulted in a decrease in selling, general and administrative (and a corresponding increase in cost of products sold) for fiscal years 2008, 2007, and 2006 of \$459,818, \$411,726, and \$409,487, respectively. For the second quarter and six months ended April 27, 2008, the reclassification totaled \$112,687 and \$222,015, respectively. The change did not impact net earnings or 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 in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, and 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 \$4,144 and \$5,848 for the quarter and six months ended April 26, 2009, respectively, compared to gains of \$2,209 and losses of \$3,809 for the quarter and six months ended April 27, 2008.

### Supplemental Cash Flow Information





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Non-cash investment activities presented on the Consolidated Statements of Cash Flows generally consist of unrealized gains or losses on the Company's rabbi trust investments, amortization of affordable housing investments, and amortization of bond financing costs. The noted investments are included in other assets 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.

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**Guarantees**



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The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company's guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides a revocable standby letter of credit for obligations of an affiliated party that may arise under worker compensation claims. This guarantee provided by the Company amounted to \$2,390 as of April 26, 2009, and is not reflected in the Company's Consolidated Statements of Financial Position.

The Company has also guaranteed a \$9,000 loan of an independent farm operator. The loan arose to provide financing to develop a hog growing operation on a tract of land in Arizona, and the term of the loan runs through November 2023. Approximately \$2,900 of the loan proceeds have been spent to date, with the remaining \$6,100 being held in an escrow account. The Company is obligated to make payments if the farm operator fails to do so, and the Company has made immaterial payments in fiscal 2008 and 2009. As there is no current intention to spend additional funds on this project, the Company estimates its maximum liability remaining under this guarantee to be approximately \$2,500 plus interest. The portion of the potential obligation currently held in escrow does not represent a risk to the Company and is therefore not reflected in the Company's Consolidated Statements of Financial Position.

### New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). The pronouncement amends and expands the disclosure requirements previously required by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted the provisions of SFAS 161 in the second quarter of fiscal 2009, and the required disclosures are provided in Note H *Derivatives and Hedging*. Adoption did not impact consolidated net earnings, cash flows, or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). The pronouncement 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. SFAS 141(R) 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 SFAS 141(R) will depend on future acquisitions. However, the accounting for any tax uncertainties will be subject to the provisions of SFAS 141(R). The Company will adopt SFAS 141(R) at the beginning of fiscal 2010, and is currently assessing the impact of adopting this accounting standard.

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*—an amendment of ARB No. 51 (SFAS 160). The pronouncement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of Accounting Research Bulletin No. 51's consolidation procedures for consistency with the requirements of SFAS 141(R). SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company will adopt SFAS 160 at the beginning of fiscal 2010, and is currently assessing the impact of adopting this accounting standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The pronouncement permits entities to choose to measure many financial instruments and certain other items at fair value, which provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge



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accounting provisions. SFAS 159 was effective for fiscal years beginning after November 15, 2007, and therefore, the Company adopted SFAS 159 at the beginning of fiscal 2009. The adoption of SFAS 159 did not impact consolidated net earnings, cash flows, or financial position, as the Company did not elect the fair value option.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). The pronouncement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, in February 2008, the FASB also issued FASB Staff Position FAS 157-2 (FSP 157-2), which delayed the effective date of SFAS 157 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 SFAS 157 at the beginning of fiscal 2009 for its financial assets and liabilities. Adoption did not impact net earnings, cash flows, or financial position, but resulted in additional disclosures. (See further discussion in Note I Fair Value Measurements.) Subject to the deferral allowed by FSP 157-2, the Company will apply the provisions of SFAS 157 to its nonfinancial assets and liabilities in fiscal 2010, and is currently assessing the impact of this adoption.

In September 2006, the FASB also issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). The pronouncement requires the funded status of a plan, measured as the difference between the fair value of plan assets and the benefit obligations, be recognized on a plan sponsor's statement of financial position. It also requires gains or losses that arise during the plan year to be recognized as a component of other comprehensive income to the extent they are not recognized in net periodic benefit cost during the year. These provisions were effective for fiscal years ending after December 15, 2006, and therefore the Company adopted the required provisions of this statement for the fiscal 2007 year end. For fiscal years ending after December 15, 2008, the pronouncement further requires plan sponsors to measure defined benefit plan assets and obligations as of the date of the plan sponsor's fiscal year end statement of financial position. The Company adopted these measurement date provisions at the beginning of fiscal 2009, and elected to use the 15 month alternative measurement approach as an August 1 measurement date had previously been used. The Company recognized an \$11,793 decrease in retained earnings, an \$8,416 increase in pension and post-retirement benefits, a \$1,459 decrease in accumulated other comprehensive loss, a \$1,006 decrease in pension assets, and a \$912 increase in deferred tax liabilities, upon adoption.

**NOTE B**

**ACQUISITIONS**

On June 13, 2008, the Company purchased Boca Grande Foods, Inc. (Boca Grande) for a purchase price of \$23,361 cash, including related costs. Boca Grande manufactures, sells, and distributes liquid portion products, and operates a facility in Duluth, Georgia. This acquisition provides additional capacity, production capabilities, and customers for liquid portion products for Diamond Crystal Brands within the Specialty Foods segment.

Operating results for Boca Grande 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**

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

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A reconciliation of the number of options outstanding and exercisable (in thousands) as of April 26, 2009, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 26, 2008	10,735	\$ 31.04		
Granted	1,312	26.80		
Exercised	(124)	16.74		
Forfeitures	(50)	37.41		
Outstanding at April 26, 2009	11,873	\$ 30.69	6.1 years	\$ 33,008
Exercisable at April 26, 2009	7,405	\$ 28.25	4.8 years	\$ 27,984

The weighted-average grant date fair value of stock options granted, and the total intrinsic value of options exercised during the second quarter and first six months of fiscal years 2009 and 2008, are as follows:

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Weighted-average grant date fair value	\$ 6.76	\$ 9.67	\$ 5.86	\$ 10.38
Intrinsic value of exercised options	\$ 258	\$ 10,911	\$ 1,558	\$ 24,606

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

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Risk-Free Interest Rate	3.4%	3.7%	3.2%	4.0%
Dividend Yield	2.5%	1.9%	2.5%	1.8%
Stock Price Volatility	22.0%	21.0%	22.0%	21.0%
Expected Option Life	8 years	8 years	8 years	8 years

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



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The Company's nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of April 26, 2009, and changes during the six months then ended, is as follows:

	Shares		Weighted- Average Grant- Date Fair Value
Nonvested at October 26, 2008	77	\$	35.72
Granted	28		30.39
Vested	(8)		26.97
Nonvested at April 26, 2009	97	\$	34.90

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The weighted-average grant date fair value of nonvested shares granted, the total fair value of nonvested shares granted, and the fair value of shares that have vested during the second quarter and first six months of fiscal years 2009 and 2008, are as follows:

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Weighted-average grant date fair value	\$ 30.39	\$ 38.97	\$ 30.39	\$ 38.97
Fair value of nonvested shares granted	\$ 836	\$ 974	\$ 836	\$ 974
Fair value of shares vested	\$ 202	\$ 43	\$ 204	\$ 43

Stock-based compensation expense, along with the related income tax benefit, for the second quarter and first six months of fiscal years 2009 and 2008 are presented in the table below.

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Stock-based compensation expense recognized	\$ 3,366	\$ 3,233	\$ 7,416	\$ 9,578
Income tax benefit recognized	(1,294)	(1,235)	(2,852)	(3,658)
After-tax stock-based compensation expense	\$ 2,072	\$ 1,998	\$ 4,564	\$ 5,920

At April 26, 2009, there was \$18,011 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 2.6 years. During the quarter and six months ended April 26, 2009, cash received from stock option exercises was \$342 and \$1,459, compared to \$1,989 and \$10,739 for the quarter and six months ended April 27, 2008. The total tax benefit to be realized for tax deductions from these option exercises for the quarter and six months ended April 26, 2009, was \$99 and \$599, respectively, compared to \$4,167 and \$9,397 in the comparable periods in fiscal 2008. The amounts reported for tax deductions for option exercises in the quarter and six months ended April 26, 2009 include \$90 and \$590, respectively, of excess tax benefits compared to \$4,134 and \$9,103, respectively, of excess tax benefits in the comparable periods last year, which are included in Other under financing activities on the Consolidated Statements of Cash Flows (with an offsetting amount in other operating activities).

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 three and six month periods ended April 26, 2009, are presented in the tables below. Additions and adjustments during fiscal 2009 primarily relate to the Boca Grande acquisition.

Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
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Balance as of January 25, 2009	\$	123,316	\$	85,539	\$	203,214	\$	206,658	\$	674	\$	619,401
Goodwill acquired								36				36
Purchase adjustments								268				268
Balance as of April 26, 2009	\$	123,316	\$	85,539	\$	203,214	\$	206,962	\$	674	\$	619,705

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	<b>Grocery Products</b>	<b>Refrigerated Foods</b>	<b>JOTS</b>	<b>Specialty Foods</b>	<b>All Other</b>	<b>Total</b>
Balance as of October 26, 2008	\$ 123,316	\$ 85,537	\$ 203,214	\$ 206,584	\$ 674	\$ 619,325
Goodwill acquired		2		55		57
Purchase adjustments				323		323
Balance as of April 26, 2009	\$ 123,316	\$ 85,539	\$ 203,214	\$ 206,962	\$ 674	\$ 619,705

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented below.

	<b>April 26, 2009</b>		<b>October 26, 2008</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Proprietary software & technology	\$ 23,800	\$ (10,024)	\$ 24,200	\$ (8,986)
Customer lists/relationships	19,678	(6,665)	21,078	(6,936)
Formulas & recipes	17,104	(8,854)	20,604	(11,405)
Non-compete covenants	7,020	(4,438)	20,120	(16,734)
Distribution network	4,120	(2,333)	4,120	(2,127)
Other intangibles	7,230	(2,985)	8,630	(3,829)
Total	\$ 78,952	\$ (35,299)	\$ 98,752	\$ (50,017)

Amortization expense was \$2,587 and \$5,172 for the three and six months ended April 26, 2009, respectively, compared to \$2,900 and \$6,148 for the three and six months ended April 27, 2008.

Estimated annual amortization expense for the five fiscal years after October 26, 2008, is as follows:

2009	\$	10,299
2010		9,199
2011		7,681
2012		7,124
2013		6,071

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

	<b>April 26, 2009</b>	<b>October 26, 2008</b>
Brands/tradenames/trademarks	\$ 94,410	\$ 94,500
Other intangibles	7,984	7,984
Total	\$ 102,394	\$ 102,484

**NOTE E****EARNINGS PER SHARE DATA**

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

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Basic weighted-average shares outstanding	134,272	135,652	134,325	135,679
Dilutive potential common shares	1,101	1,968	943	1,964
Diluted weighted-average shares outstanding	135,373	137,620	135,268	137,643

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

Components of comprehensive income, net of taxes, are:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 26, 2009</b>	<b>April 27, 2008</b>	<b>April 26, 2009</b>	<b>April 27, 2008</b>
Net earnings	\$ 80,385	\$ 77,561	\$ 161,768	\$ 165,742
Other comprehensive (loss) income:				
Deferred (loss) gain on hedging	(14,999)	11,855	(10,405)	33,720
Reclassification adjustment into net earnings	14,467	(5,290)	14,973	(5,066)
Foreign currency translation	(1,054)	271	(3,288)	5,052
Pension and post-retirement benefits	1,446	2,145	(2,486)	4,288
Other comprehensive (loss) income	(140)	8,981	(1,206)	37,994
Total comprehensive income	\$ 80,245	\$ 86,542	\$ 160,562	\$ 203,736

**NOTE G****INVENTORIES**

Principal components of inventories are:

	<b>April 26, 2009</b>	<b>October 26, 2008</b>
Finished products	\$ 406,009	\$ 431,095
Raw materials and work-in-process	206,599	215,353
Materials and supplies	135,570	138,094
Total	\$ 748,178	\$ 784,542

**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

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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 typically does not hedge its grain exposure beyond 24 months and its natural gas exposure beyond 36 months. As of April 26, 2009, the Company had the following outstanding commodity futures contracts and swaps that were entered into to hedge forecasted purchases:

Commodity	Volume
Corn	26.7 million bushels
Soybean Meal	223,200 bushels
Natural Gas	5.9 million MMBTU s

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As of April 26, 2009, the Company has included in accumulated other comprehensive loss, hedging losses of \$58,538 (before tax) relating to its positions. 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 April 26, 2009, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

Commodity	Volume
Corn	12.2 million bushels
Soybean Meal	8,900 bushels
Lean Hogs	225,600 cwt

**Other Derivatives:** During fiscal 2009, the Company has held certain futures contract positions as part of a merchandising program. The Company has not applied hedge accounting to these positions. As of April 26, 2009, the Company had the following outstanding commodity futures contracts related to this program:

Commodity	Volume
Pork Bellies	48,800 cwt
Lean Hogs	24,000 cwt

**Fair Values:** The fair values of the Company's derivative instruments as of April 26, 2009, were as follows:

	April 26, 2009	
	Location on Consolidated Statement of Financial Position	Fair Value (1)
<b><u>Asset Derivatives:</u></b>		
<b>Derivatives Designated as Hedges:</b>		
Commodity contracts	Prepaid expenses and other current assets	\$ 9,886
<b>Derivatives Not Designated as Hedges:</b>		
Commodity contracts	Prepaid expenses and other current assets	(1,096)
<b>Total Asset Derivatives</b>		<b>\$ 8,790</b>
<b><u>Liability Derivatives:</u></b>		
<b>Derivatives Designated as Hedges:</b>		



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Commodity contracts	Accounts payable	\$	25,096
<b>Total Liability Derivatives</b>		<b>\$</b>	<b>25,096</b>

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(1) Amounts represent the gross fair value of derivative assets and liabilities. In accordance with FASB Staff Position FIN No. 39-1, 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 Statement of Financial Position.

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**Derivative Gains and Losses:** Gains or losses (before tax) related to the Company's derivative instruments for the quarter ended April 26, 2009, were as follows:

	Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion)(1)	Location of Gains/(Losses) on Consolidated Statement of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion)(1)	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)
<b>Cash Flow Hedges:</b>				
Commodity contracts	\$ (24,570)	Cost of products sold	\$ (23,475)	\$ 626(4)
		Location of Gains/(Losses) on Consolidated Statement of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion)	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)
<b>Fair Value Hedges:</b>				
Commodity contracts		Cost of products sold	\$ 17,847(3)	\$ (1,470)(5)
		Location of Gains/(Losses) on Consolidated Statement of Operations	Gain/(Loss) Recognized in Earnings	
<b>Derivatives Not Designated as Hedges:</b>				
Commodity contracts		Cost of products sold	\$ 120	

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- (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 quarter.
- (3) Gains on commodity contracts designated as fair value hedges were offset by a corresponding loss on the underlying hedged purchase commitment.
- (4) There were no gains or losses resulting from the discontinuance of cash flow hedges during the quarter.
- (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 quarter.

**NOTE I****FAIR VALUE MEASUREMENTS**

Effective at the beginning of fiscal 2009, the Company adopted the provisions of SFAS 157, Fair Value Measurements (SFAS 157) for its financial assets and liabilities carried at fair value on a recurring basis in the consolidated financial statements. Per discussion in Note A, the FASB allowed deferral of the effective date of SFAS 157 for one year for nonfinancial assets and liabilities measured at fair value that are recognized or disclosed on a nonrecurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS 157 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). SFAS 157 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.

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The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of April 26, 2009, and their level within the fair value hierarchy, are presented in the table below.

	Fair Value at April 26, 2009	Fair Value Measurements at April 26, 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)	\$ 229,061	\$ 229,061	\$	\$
Trading securities (2)	94,379	94,379		
Commodity derivatives (3)	7,490	7,490		
Total Assets at Fair Value	\$ 330,930	\$ 330,930	\$	\$
Liabilities at Fair Value:				
Commodity derivatives (3)	\$ 25,096	\$	\$ 25,096	\$
Deferred compensation (2)	34,746	8,684	26,062	
Total Liabilities at Fair Value	\$ 59,842	\$ 8,684	\$ 51,158	\$

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.
- (2) The Company 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. The funds held are all managed by a third party, and include fixed income funds, equity securities, money market accounts, 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.
- (3) 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. In accordance with FASB Staff Position FIN No. 39-1, 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 prepaid expenses and other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of April 26, 2009, the Company had recognized the right to reclaim cash collateral of \$41,090 from, and the obligation to return cash collateral of \$42,390 to, various counterparties.



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

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Service cost	\$ 4,530	\$ 5,032	\$ 9,033	\$ 10,015
Interest cost	11,799	11,074	23,617	22,331
Expected return on plan assets	(13,074)	(14,203)	(26,148)	(28,350)
Amortization of prior service cost	(151)	(38)	(297)	(76)
Recognized actuarial loss	1,343	1,317	2,674	2,633
Settlement charge			4,219	
Net periodic cost	\$ 4,447	\$ 3,182	\$ 13,098	\$ 6,553

	Post-retirement Benefits			
	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Service cost	\$ 552	\$ 682	\$ 1,104	\$ 1,364
Interest cost	5,583	5,649	11,166	11,299
Amortization of prior service cost	1,377	1,454	2,753	2,908
Recognized actuarial (gain) loss	(210)	736	(420)	1,472
Net periodic cost	\$ 7,302	\$ 8,521	\$ 14,603	\$ 17,043

A \$4,219 charge was recognized in the first quarter of fiscal 2009 for partial settlements on non-qualified pension plans resulting from executive retirements. The Company anticipates making a contribution between \$15,000 and \$20,000 in the third quarter of fiscal 2009 to fund its pension plans at required levels, and is currently evaluating an additional discretionary contribution.

**NOTE K INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) at the beginning of fiscal 2008, on October 29, 2007. The amount of unrecognized tax benefits, including interest and penalties, at April 26, 2009, recorded in other long-term liabilities was \$38,862, of which \$25,297 would impact the Company's effective tax rate if recognized. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense, with \$415 and \$1,000 included in expense in the second quarter and first six months of fiscal 2009, respectively. The amount of accrued interest and penalties at April 26, 2009, associated with unrecognized tax benefits was \$9,869.

The Company is regularly audited by federal and state taxing authorities. During fiscal year 2007, the I.R.S. concluded its examination of the Company's consolidated federal income tax returns for the fiscal years through 2005. The Company is currently under examination by the I.R.S. for the fiscal years 2006 and 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.

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**NOTE L**                      **SEGMENT REPORTING**

The Company develops, processes, and distributes a wide array of food products in a variety of markets. Under the criteria set forth by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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.

The Refrigerated Foods segment includes the Hormel Refrigerated, Farmer John, Burke Corporation, and Dan's Prize operating segments. 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. Results for the Hormel Refrigerated operating segment include the Precept Foods business, which offers a variety of case-ready beef and pork products to retail customers. 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, 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 various miscellaneous corporate sales.

Intersegment sales are recorded at prices that approximate cost and are eliminated in the Consolidated Statements of Operations. Equity in earnings of affiliates is included in segment profit; however, 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. These items are included below as net interest and investment income and general corporate expense 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.

	Three Months Ended		Six Months Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
<b>Sales to Unaffiliated Customers</b>				
Grocery Products	\$ 241,684	\$ 233,464	\$ 483,627	\$ 460,879
Refrigerated Foods	834,062	831,821	1,731,486	1,689,281
Jennie-O Turkey Store	289,745	291,889	594,784	583,338
Specialty Foods	173,586	182,534	352,476	371,321
All Other	55,966	54,376	121,756	110,430
Total	\$ 1,595,043	\$ 1,594,084	\$ 3,284,129	\$ 3,215,249
<b>Intersegment Sales</b>				
Grocery Products	\$ 0	\$ 0	\$ 0	\$ 0
Refrigerated Foods	1,745	1,114	3,915	1,979
Jennie-O Turkey Store	27,450	24,177	48,969	45,988
Specialty Foods	25	23	103	118
All Other	0	0	0	0
Total	\$ 29,220	\$ 25,314	\$ 52,987	\$ 48,085
Intersegment elimination	(29,220)	(25,314)	(52,987)	(48,085)
Total	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net Sales</b>				
Grocery Products	\$ 241,684	\$ 233,464	\$ 483,627	\$ 460,879
Refrigerated Foods	835,807	832,935	1,735,401	1,691,260
Jennie-O Turkey Store	317,195	316,066	643,753	629,326
Specialty Foods	173,611	182,557	352,579	371,439
All Other	55,966	54,376	121,756	110,430
Intersegment elimination	(29,220)	(25,314)	(52,987)	(48,085)
Total	\$ 1,595,043	\$ 1,594,084	\$ 3,284,129	\$ 3,215,249
<b>Segment Operating Profit</b>				
Grocery Products	\$ 43,677	\$ 41,611	\$ 83,312	\$ 77,980
Refrigerated Foods	51,695	55,625	97,440	118,431
Jennie-O Turkey Store	16,678	11,708	45,927	46,512
Specialty Foods	15,432	15,513	30,749	33,806
All Other	5,027	5,843	13,272	14,868
Total segment operating profit	\$ 132,509	\$ 130,300	\$ 270,700	\$ 291,597
Net interest and investment income	1,666	(3,176)	(3,398)	(14,834)
General corporate expense	(9,547)	(5,747)	(18,044)	(16,075)
Earnings before income taxes	\$ 124,628	\$ 121,377	\$ 249,258	\$ 260,688

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (In Thousands of Dollars, Except Per Share Amounts)**

**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 year ended October 26, 2008.

**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 Form 10-Q.

The Company earned \$0.59 per diluted share in the second quarter of fiscal 2009, an increase of 5.4 percent compared to \$0.56 per diluted share in the second quarter of fiscal 2008. Significant factors impacting the quarter were:

- Refrigerated Foods profits decreased due to pork operating losses generated by a continued unfavorable spread between hog costs and primal values.
- Grocery Products showed increased profit results, driven by continued strength in sales of core product lines.
- Jennie-O Turkey Store reported a significant increase in profits, driven primarily by lower feed costs during the quarter due to a planned reduction in turkey production and a decreased cost per ton.
- The Company recognized a \$3,634 pre-tax gain on the dissolution of its Carapelli USA, LLC joint venture.

**Consolidated Results**

Net earnings for the second quarter of fiscal 2009 increased 3.6 percent to \$80,385 compared to \$77,561 in the same quarter of 2008. Diluted earnings per share for the quarter increased 5.4 percent to \$0.59 from \$0.56 last year. Net earnings for the first six months of 2009 decreased 2.4 percent to \$161,768 from \$165,742 in 2008. Diluted earnings per share for the same period were even with the prior year at \$1.20.

Net sales for the second quarter of fiscal 2009 remained comparable to the prior year at \$1,595,043 versus \$1,594,084 in 2008. Tonnage decreased 2.3 percent to 1,122 million lbs. for the second quarter compared to 1,148 million lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2009 increased 2.1 percent to \$3,284,129 from \$3,215,249 in the first six months of fiscal 2008. Tonnage for the six months decreased 1.7 percent to 2,290 million lbs. compared to 2,330 million lbs. in 2008. Tonnage declines primarily reflect planned reductions in production for the Company's turkey and pork operations in response to market conditions, and continued weakness in foodservice sales due to the economic downturn. Net sales results remained comparable to the prior year as strong demand for the Company's retail products and the impact of fiscal 2008 pricing initiatives partially offset the impact of the tonnage declines.

Gross profit for the second quarter and first six months of fiscal 2009 was \$262,038 and \$534,353, respectively, compared to \$263,952 and \$556,643 for the same periods last year. Gross profit as a percentage of net sales for the second quarter and six months decreased to 16.4 and 16.3 percent in 2009, from 16.6 and 17.3 percent for the comparable quarter and six months of fiscal 2008. An unfavorable spread between hog costs and primal values has existed throughout much of the first half of fiscal 2009, and has resulted in significant margin losses for pork operations within Refrigerated Foods. This relationship will continue to impact margins entering the third quarter. The pork operating losses were partially offset by gains in the Company's value-added businesses due to the lower input costs and strong sales growth. Margin improvement was also noted at Jennie-O Turkey Store.

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during the second quarter driven by lower feed costs compared to the prior year, due to a planned reduction in turkey production and a decreased cost per ton, but margins for the six months still remain below fiscal 2008 levels due to weak commodity meat markets. Lower freight expense across most segments of the Company also provided a benefit for both the second quarter and six months.

Selling, general and administrative expenses for the second quarter and first six months of fiscal 2009 were \$139,846 and \$282,371, respectively, compared to \$140,220 and \$284,311 last year. As a percentage of net sales, selling, general and administrative expenses for the second quarter were even with the prior year at 8.8 percent. For the first six months, these expenses declined to 8.6 percent from 8.8 percent in fiscal 2008. During fiscal 2009, lower expenses were incurred related to compensation, travel, and professional services. These items offset increased medical expenses and higher pension expenses related to executive retirements. A decrease in the Company's advertising expenses compared to the prior year also contributed to the reduced expense. The Company expects overall selling, general and administrative expenses to be approximately 9.0 percent of net sales for the remainder of fiscal 2009.

Equity in earnings of affiliates was \$770 and \$674 for the second quarter and first six months, respectively, compared to \$821 and \$3,190 last year. Decreases for both the second quarter and six months were driven by lower results from the Company's 40 percent owned Philippine joint venture, Purefoods-Hormel Company, and the Company's 49 percent owned joint venture, San Miguel Purefoods (Vietnam) Co. Ltd. These declines were partially offset by improved performance from the Company's 50 percent owned joint venture, Herdez Corporation. Minority interests in the Company's consolidated investments are also reflected in these figures, and remained comparable to the prior year.

The effective tax rate for the second quarter and first six months of fiscal 2009 was 35.5 and 35.1 percent, respectively, compared to 36.1 and 36.4 percent for the comparable quarter and six months of fiscal 2008. The lower rate for both the second quarter and first six months of fiscal 2009 reflects more positive returns on the Company's rabbi trust in the current year, which are not taxable. The lower rate for the six months is also due to an increase in interest reserves as a result of the adoption of FIN 48 and net unfavorable discrete items in the first quarter of fiscal 2008. The Company expects a full-year effective tax rate of approximately 36.0 percent for fiscal 2009.

Table of Contents**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 Form 10-Q.

	Three Months Ended			Six Months Ended		
	April 26, 2009	April 27, 2008	% Change	April 26, 2009	April 27, 2008	% Change
<b>Net Sales</b>						
Grocery Products	\$ 241,684	\$ 233,464	3.5	\$ 483,627	\$ 460,879	4.9
Refrigerated Foods	834,062	831,821	0.3	1,731,486	1,689,281	2.5
Jennie-O Turkey Store	289,745	291,889	(0.7)	594,784	583,338	2.0
Specialty Foods	173,586	182,534	(4.9)	352,476	371,321	(5.1)
All Other	55,966	54,376	2.9	121,756	110,430	