

HORMEL FOODS CORP /DE/  
Form 10-Q  
September 09, 2011  
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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 31, 2011**

**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.

	<b>Class</b>		<b>Outstanding at September 4, 2011</b>
Common Stock		\$.0293 par value	265,226,125

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Common Stock Non-Voting

\$.01 par value

-0-

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	<b>July 31, 2011 (Unaudited)</b>	<b>October 31, 2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 497,364	\$ 467,845
Short-term marketable securities	76,125	50,595
Accounts receivable	427,927	430,939
Inventories	865,875	793,771
Income taxes receivable	16,830	8,525
Deferred income taxes	70,299	70,703
Prepaid expenses	11,859	12,153
Other current assets	10,842	23,635
<b>TOTAL CURRENT ASSETS</b>	<b>1,977,121</b>	<b>1,858,166</b>
<b>DEFERRED INCOME TAXES</b>	<b>49,046</b>	<b>72,426</b>
<b>GOODWILL</b>	<b>630,707</b>	<b>629,023</b>
<b>OTHER INTANGIBLES</b>	<b>134,330</b>	<b>141,522</b>
<b>PENSION ASSETS</b>	<b>87,424</b>	<b>61,272</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>227,810</b>	<b>214,389</b>
<b>OTHER ASSETS</b>	<b>147,196</b>	<b>155,017</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	55,676	54,017
Buildings	740,655	729,718
Equipment	1,376,515	1,358,237
Construction in progress	49,767	45,283
	2,222,613	2,187,255
Less allowance for depreciation	(1,326,718)	(1,265,152)
	895,895	922,103
<b>TOTAL ASSETS</b>	<b>\$ 4,149,529</b>	<b>\$ 4,053,918</b>



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

	July 31, 2011 (Unaudited)	October 31, 2010
<b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 301,578	\$ 361,287
Accrued expenses	42,787	46,408
Accrued workers compensation	33,579	33,022
Accrued marketing expenses	100,182	76,552
Employee related expenses	176,451	187,116
Taxes payable	9,034	9,339
Interest and dividends payable	37,352	37,489
Current maturities of long-term debt	0	350,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>700,963</b>	<b>1,101,213</b>
<b>LONG TERM DEBT less current maturities</b>	<b>250,000</b>	<b>0</b>
<b>PENSION AND POST-RETIREMENT BENEFITS</b>	<b>458,258</b>	<b>454,998</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>73,693</b>	<b>91,068</b>
<b>SHAREHOLDERS INVESTMENT *</b>		
Preferred stock, par value \$.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value \$.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value \$.0293 a share authorized 800,000,000 shares; issued 266,327,925 shares July 31, 2011 issued 265,963,080 shares October 31, 2010	7,803	7,793
Accumulated other comprehensive loss	(154,554)	(175,910)
Retained earnings	2,806,391	2,568,774
<b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>	<b>2,659,640</b>	<b>2,400,657</b>
<b>NONCONTROLLING INTEREST</b>	<b>6,975</b>	<b>5,982</b>
<b>TOTAL SHAREHOLDERS INVESTMENT</b>	<b>2,666,615</b>	<b>2,406,639</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>	<b>\$ 4,149,529</b>	<b>\$ 4,053,918</b>

\* Shares and par values have been restated, as appropriate, to reflect the two-for-one stock split effected February 1, 2011.

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 31, 2011	July 25, 2010*	July 31, 2011	July 25, 2010*
Net sales	\$ 1,910,592	\$ 1,730,451	\$ 5,791,191	\$ 5,157,680
Cost of products sold	1,612,737	1,445,536	4,793,104	4,273,911
<b>GROSS PROFIT</b>	<b>297,855</b>	<b>284,915</b>	<b>998,087</b>	<b>883,769</b>
Selling, general and administrative	156,595	146,523	461,892	438,837
Equity in earnings of affiliates	5,562	2,222	19,139	8,995
<b>OPERATING INCOME</b>	<b>146,822</b>	<b>140,614</b>	<b>555,334</b>	<b>453,927</b>
Other income and expense:				
Interest and investment income	139	310	2,552	2,176
Interest expense	(5,623)	(6,493)	(19,389)	(19,628)
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>141,338</b>	<b>134,431</b>	<b>538,497</b>	<b>436,475</b>
Provision for income taxes	41,374	48,067	177,796	159,307
<b>NET EARNINGS</b>	<b>99,964</b>	<b>86,364</b>	<b>360,701</b>	<b>277,168</b>
Less: Net earnings attributable to noncontrolling interest	1,483	994	3,815	2,729
<b>NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 98,481</b>	<b>\$ 85,370</b>	<b>\$ 356,886</b>	<b>\$ 274,439</b>
<b>NET EARNINGS PER SHARE:</b>				
BASIC	\$ 0.37	\$ 0.32	\$ 1.34	\$ 1.03
DILUTED	\$ 0.36	\$ 0.32	\$ 1.31	\$ 1.01
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
BASIC	266,925	266,401	266,887	266,922
DILUTED	272,759	270,326	272,449	270,736
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$ 0.1275</b>	<b>\$ 0.1050</b>	<b>\$ 0.3825</b>	<b>\$ 0.3150</b>

\* Shares and per share figures have been restated to reflect the two-for-one stock split effected February 1, 2011.

See Notes to Consolidated Financial Statements





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	<b>Hormel Foods Corporation Shareholders</b>						
	<b>Common Stock</b>	<b>Treasury Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Non- controlling Interest</b>	<b>Total Shareholders Investment</b>
Balance at October 25, 2009	\$ 7,828	\$ 0	\$ 0	\$ 2,318,390	\$ (203,610)	\$ 1,713	\$ 2,124,321
Comprehensive income							
Net earnings				395,587		4,189	399,776
Foreign currency translation					5,468	80	5,548
Deferred hedging, net of reclassification adjustment					33,372		33,372
Pension and other benefits					(11,140)		(11,140)
Comprehensive income						4,269	427,556
Purchases of common stock		(69,574)					(69,574)
Stock-based compensation expense			14,402				14,402
Exercise of stock options/nonvested shares	65	(308)	22,007				21,764
Shares retired	(100)	69,882	(36,409)	(33,373)			0
Declared cash dividends \$.42 per share*				(111,830)			(111,830)
Balance at October 31, 2010	\$ 7,793	\$ 0	\$ 0	\$ 2,568,774	\$ (175,910)	\$ 5,982	\$ 2,406,639
Comprehensive income							
Net earnings				356,886		3,815	360,701
Foreign currency translation					2,915	178	3,093
Deferred hedging, net of reclassification adjustment					7,178		7,178
Pension and other benefits					11,263		11,263
Comprehensive income						3,993	382,235
Purchases of common stock		(80,648)					(80,648)
Stock-based compensation expense			14,820				14,820
Exercise of stock options/nonvested shares	94	(149)	48,835				48,780
Shares retired	(84)	80,797	(63,655)	(17,058)			0

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Distribution to noncontrolling interest									(3,000)		(3,000)			
Declared cash dividends \$ .3825 per share									(102,211)		(102,211)			
Balance at July 31, 2011	\$	7,803	\$	0	\$	0	\$	2,806,391	\$	(154,554)	\$	6,975	\$	2,666,615

\* Per share figures have been restated to reflect the two-for-one stock split effected February 1, 2011.

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 31, 2011	July 25, 2010
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 360,701	\$ 277,168
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	85,735	84,332
Amortization of intangibles	7,192	7,786
Equity in earnings of affiliates, net of dividends	(15,108)	(8,995)
Provision for deferred income taxes	5,040	1,285
Gain on property/equipment sales and plant facilities	(250)	(81)
Non-cash investment activities	357	(276)
Stock-based compensation expense	14,820	11,868
Excess tax benefit from stock-based compensation	(13,590)	(7,243)
Other	486	7,595
Changes in operating assets and liabilities, net of acquisitions:		
Decrease (Increase) in accounts receivable	3,012	(11,600)
Increase in inventories	(72,104)	(71,013)
Decrease in prepaid expenses and other current assets	19,306	4,732
(Decrease) Increase in pension and post-retirement benefits	(4,437)	2,182
Decrease in accounts payable and accrued expenses	(71,735)	(26,118)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>319,425</b>	<b>271,622</b>
<b>INVESTING ACTIVITIES</b>		
Net purchase of trading securities	(20,000)	(50,000)
Acquisitions of businesses/intangibles	(7,207)	(27,978)
Purchases of property/equipment	(56,253)	(63,754)
Proceeds from sales of property/equipment	3,496	3,200
Decrease (Increase) in investments, equity in affiliates, and other assets	7,010	(30,970)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(72,954)</b>	<b>(169,502)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt, net	247,564	0
Principal payments on long-term debt	(350,000)	0
Dividends paid on common stock	(95,991)	(81,429)
Share repurchase	(80,648)	(53,171)
Proceeds from exercise of stock options	50,540	16,780
Excess tax benefit from stock-based compensation	13,590	7,243
Distribution to noncontrolling interest	(3,000)	0
Other	993	122
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(216,952)</b>	<b>(110,455)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>29,519</b>	<b>(8,335)</b>
Cash and cash equivalents at beginning of year	467,845	385,252
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 497,364</b>	<b>\$ 376,917</b>



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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 31, 2010, 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 31, 2010.

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.

**Stock Split**

On November 22, 2010, the Company's Board of Directors authorized a two-for-one split of the Company's common stock, which was subsequently approved by shareholders at the Company's Annual Meeting on January 31, 2011, and effected on February 1, 2011. The Company's common stock was reclassified by reducing the par value from \$.0586 per share to \$.0293 per share and the number of authorized shares was increased from 400,000,000 to 800,000,000 shares, in order to effect a two-for-one stock split. The number of authorized shares of nonvoting common stock and preferred stock was also increased to 400,000,000 shares and 160,000,000 shares, respectively, with no change in the par value of those shares.

Unless otherwise noted, all prior year share amounts and per share calculations throughout this Quarterly Report on Form 10-Q have been restated to reflect the impact of this split, and to provide data on a basis comparable to fiscal 2011. Such restatements include calculations regarding the Company's weighted-average shares, earnings per share, and dividends per share, as well as disclosures regarding the Company's stock-based compensation plans and share repurchase activity.

**Subsequent Event**

Effective August 22, 2011, MegaMex Foods, LLC (MegaMex), a joint venture between the Company and Herdez Del Fuerte, S.A. de C.V., completed the acquisition of Fresherized Foods. Fresherized Foods produces *Wholly Guacamole*®, *Wholly Salsa*® and *Wholly Queso*® products, which expand the platform of Mexican foods offered by the Company. The Company's 50 percent share of the Fresherized Foods results will be reflected through equity in earnings of affiliates for MegaMex in the Grocery Products segment from the date of acquisition.

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**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. Securities held by the trust generated a loss of \$0.2 million for the third quarter and a gain of \$1.6 million for the nine months ended July 31, 2011, compared to gains of \$0.4 million and \$2.9 million for the third quarter and nine months ended July 25, 2010, respectively. The Company has transitioned the majority of this portfolio to more fixed return investments to reduce the exposure to volatility in equity markets.

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 \$0.1 million and \$0.5 million related to these investments during the third quarter and nine months ended July 31, 2011, respectively, compared to a gain of \$0.2 million for 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, included two non-recurring charges recorded by the Company. During the second quarter of fiscal 2010, the Company made the decision to close its Valley Fresh plant in Turlock, California. A write-down of fixed assets and the recording of employee related costs resulted in a charge to net earnings of \$6.3 million (\$0.02 per diluted share). Health care laws enacted in fiscal 2010 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 (\$0.03 per diluted share) to income tax expense during the second quarter of fiscal 2010, primarily related to these new health care laws.

**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.

**NOTE B**      **ACQUISITIONS**

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

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

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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 an exercise price equal to the market price of the common stock on the date of grant. Options typically 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.

During the first quarter of fiscal 2007, the Company made a one-time grant of 100 stock options (pre-split) to each active, full-time employee of the Company on January 8, 2007. This grant was to vest upon the earlier of five years or attainment of a closing stock price of \$50.00 per share (pre-split) for five consecutive trading days, and had an expiration of ten years after the grant date. During the first quarter of fiscal 2011, the options vested after the stock attained the required closing price per share for five consecutive trading days.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 31, 2011, and changes during the nine months then ended, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at October 31, 2010	22,048	\$ 16.47		
Granted	2,648	24.95		
Exercised	(4,437)	15.34		
Forfeitures	(20)	18.71		
Outstanding at July 31, 2011	20,239	\$ 17.83	5.9 years	\$ 225,536
Exercisable at July 31, 2011	13,967	\$ 16.54	4.7 years	\$ 173,653

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 first nine months of fiscal years 2011 and 2010, are as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Weighted-average grant date fair value	N/A	N/A	\$ 5.54	\$ 4.55
Intrinsic value of exercised options	\$ 11,124	\$ 3,334	\$ 50,312	\$ 22,559

The fair value of each 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 31, 2011, or July 25, 2010.

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	Nine Months Ended	
	July 31, 2011	July 25, 2010
Risk-Free Interest Rate	3.0%	3.4%
Dividend Yield	2.0%	2.2%
Stock Price Volatility	21.0%	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

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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 option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee and non-employee director groups.

The Company's nonvested shares granted on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted after September 26, 2010, vest after one year. A reconciliation of the nonvested shares (in thousands) as of July 31, 2011, and changes during the nine months then ended, is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 31, 2010	206	\$ 18.13
Granted	45	24.84
Vested	(20)	16.77
Nonvested at July 31, 2011	231	19.55

No nonvested shares were granted or vested in the third quarter ended July 31, 2011, or July 25, 2010. 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 2011 and 2010, are as follows:

	Nine Months Ended	
	July 31, 2011	July 25, 2010
Weighted-average grant date fair value	\$ 24.84	\$ 19.56
Fair value of nonvested shares granted	\$ 1,118	\$ 978
Fair value of shares vested	\$ 335	\$ 664

Stock-based compensation expense, along with the related income tax benefit, for the third quarter and first nine months of fiscal years 2011 and 2010 is presented in the table below.

(in thousands)	Three Months Ended		Nine Months Ended	
	July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Stock-based compensation expense recognized	\$ 2,578	\$ 2,682	\$ 14,820	\$ 11,868
Income tax benefit recognized	(979)	(1,028)	(5,629)	(4,548)
After-tax stock-based compensation expense	\$ 1,599	\$ 1,654	\$ 9,191	\$ 7,320

At July 31, 2011, there was \$14.5 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 2.7 years. During the third quarter and nine months ended July 31, 2011, cash received from stock option exercises was \$6.8 million and \$50.5 million, compared to \$2.6 million and \$16.8 million for the third quarter and nine months ended July 25, 2010. The total tax benefit to be realized for tax deductions from these option exercises for the third quarter and nine months ended July 31, 2011, was \$4.2 million and \$19.1 million, respectively, compared to \$1.2 million and \$8.6 million in the comparable periods in fiscal 2010.

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.

Table of Contents**NOTE D**      **GOODWILL AND INTANGIBLE ASSETS**

The change in the carrying amount of goodwill for the nine months ended July 31, 2011, is presented in the table below. There were no changes in the carrying amount during the third quarter of fiscal 2011.

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of October 31, 2010	\$ 123,316	\$ 94,791	\$ 203,214	\$ 207,028	\$ 674	\$ 629,023
Goodwill acquired		1,684				1,684
Balance as of July 31, 2011	\$ 123,316	\$ 96,475	\$ 203,214	\$ 207,028	\$ 674	\$ 630,707

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

(in thousands)	July 31, 2011		October 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	\$ 22,378	\$ (11,967)	\$ 22,378	\$ (10,194)
Proprietary software & technology	22,000	(14,197)	23,650	(13,974)
Formulas & recipes	18,354	(9,512)	22,404	(11,914)
Non-compete covenants	5,370	(5,059)	7,200	(6,275)
Distribution network	4,120	(3,268)	4,120	(2,959)
Other intangibles	8,660	(4,656)	9,740	(5,011)
Total	\$ 80,882	\$ (48,659)	\$ 89,492	\$ (50,327)

Amortization expense was \$2.3 million and \$7.2 million for the third quarter and nine months ended July 31, 2011, respectively, compared to \$2.6 million and \$7.8 million for the third quarter and nine months ended July 25, 2010.

Estimated annual amortization expense (in thousands) for the five fiscal years after October 31, 2010, is as follows:

Fiscal Year	Estimated Amortization Expense
2011	\$ 9,434
2012	8,906
2013	7,699
2014	6,303
2015	3,192

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

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(in thousands)	July 31, 2011		October 31, 2010	
Brands/tradenames/trademarks	\$	94,123	\$	94,373
Other intangibles		7,984		7,984
Total	\$	102,107	\$	102,357

Table of Contents**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 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Basic weighted-average shares outstanding	266,925	266,401	266,887	266,922
Dilutive potential common shares	5,834	3,925	5,562	3,814
Diluted weighted-average shares outstanding	272,759	270,326	272,449	270,736

For the third quarter and nine months ended July 31, 2011, 24 thousand and 0.7 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 3.2 million and 4.6 million for the third quarter and nine months ended July 25, 2010.

**NOTE F****COMPREHENSIVE INCOME**

Components of comprehensive income, net of taxes, are:

(in thousands)	Three Months Ended		Nine Months Ended	
	July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Net earnings	\$ 99,964	\$ 86,364	\$ 360,701	\$ 277,168
Other comprehensive (loss) income:				
Deferred gain (loss) on hedging	369	1,729	25,655	(8,868)
Reclassification adjustment into net earnings	(9,483)	4,006	(18,477)	16,164
Foreign currency translation	756	(1,494)	3,093	1,328
Pension and post-retirement benefits	2,962	273	11,263	6,833
Other comprehensive (loss) income	(5,396)	4,514	21,534	15,457
Total comprehensive income	94,568	90,878	382,235	292,625
Comprehensive income attributable to noncontrolling interest	1,542	1,016	3,993	2,751
Comprehensive income attributable to Hormel Foods Corporation	\$ 93,026	\$ 89,862	\$ 378,242	\$ 289,874

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



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(in thousands)	July 31, 2011	October 31, 2010
Foreign currency translation	\$ 11,764	\$ 8,849
Pension & other benefits	(193,980)	(205,243)
Deferred gain on hedging	27,662	20,484
Accumulated other comprehensive loss	\$ (154,554)	\$ (175,910)

Table of Contents**NOTE G** **INVENTORIES**

Principal components of inventories are:

(in thousands)	July 31, 2011	October 31, 2010
Finished products	\$ 477,035	\$ 431,285
Raw materials and work-in-process	223,398	205,355
Materials and supplies	165,442	157,131
Total	\$ 865,875	\$ 793,771

**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. Programs which are designated as hedges are highly effective in offsetting the changes in fair value or cash flows generated by the items hedged. Programs that are no longer highly effective are de-designated as a hedge and any future gains or losses are included in the Company's earnings on a mark-to-market basis.

**Cash Flow Hedges:** The Company utilizes futures contracts to offset the price fluctuation in the Company's future direct grain purchases, and has entered into various swaps to hedge the purchases of 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 typically does not hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of July 31, 2011, and October 31, 2010, the Company had the following outstanding commodity futures contracts and swaps that were entered into to hedge forecasted purchases:

Commodity	July 31, 2011	Volume	October 31, 2010
Corn	15.4 million bushels		21.1 million bushels
Soybean Meal	N/A		190,400 tons
Natural Gas	0.9 million MMBTU s		1.6 million MMBTU s

As of July 31, 2011, the Company had included in accumulated other comprehensive loss (AOCL), hedging gains of \$44.4 million (before tax) relating to its positions, compared to gains of \$32.9 million (before tax) as of October 31, 2010. The Company expects to recognize the majority of these gains over the next 12 months. The balance as of July 31, 2011, includes gains of \$8.2 million related to the Company's soybean meal futures contracts. These contracts were de-designated as cash flow hedges effective January 30, 2011, as they were no longer highly effective.

These gains will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of de-designation have been recognized in earnings as incurred.



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**Fair Value Hedges:** The Company also utilizes futures contracts 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 Statements 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 31, 2011, and October 31, 2010, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

Commodity	Volume	
	July 31, 2011	October 31, 2010
Corn	17.8 million bushels	9.9 million bushels
Lean Hogs	1.4 million cwt	1.1 million cwt

**Other Derivatives:** During fiscal years 2011 and 2010, the Company has held certain futures and options contract positions as part of a merchandising program and to manage the Company's exposure to fluctuations in commodity markets and foreign currencies. The Company has not applied hedge accounting to these positions.

Additionally, as of January 30, 2011, the Company de-designated its soybean meal futures contracts that were previously designated as cash flow hedges, as these contracts were no longer highly effective. Hedge accounting is no longer being applied to these contracts, and gains or losses occurring after the date of de-designation have been recognized in earnings as incurred.

As of July 31, 2011, and October 31, 2010, the Company had the following outstanding futures and options contracts related to the programs described above:

Commodity	Volume	
	July 31, 2011	October 31, 2010
Corn	N/A	1.5 million bushels
Soybean meal	9,100 tons	1,200 tons

  

Currency	Notional Amount	
	July 31, 2011	October 31, 2010
Canadian Dollars	C\$ 4.5 million	N/A

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**Fair Values:** The fair values of the Company's derivative instruments (in thousands) as of July 31, 2011, and October 31, 2010, were as follows:

	Location on Consolidated Statements of Financial Position	July 31, 2011	Fair Value (1)	October 31, 2010
<b>Asset Derivatives:</b>				
<b>Derivatives Designated as Hedges:</b>				
Commodity contracts	Other current assets	\$ (17,860)	\$	54,395
<b>Derivatives Not Designated as Hedges:</b>				
Commodity contracts	Other current assets	1,992		2,137
<b>Total Asset Derivatives</b>		<b>\$ (15,868)(2)</b>	<b>\$</b>	<b>56,532</b>
<b>Liability Derivatives:</b>				
<b>Derivatives Designated as Hedges:</b>				
Commodity contracts	Accounts payable	\$ (74,801)(2)	\$	6,390
<b>Derivatives Not Designated as Hedges:</b>				
Commodity contracts	Accounts payable	(733)(2)		
Foreign exchange contracts	Accounts payable	61		
<b>Total Liability Derivatives</b>		<b>\$ (75,473)</b>	<b>\$</b>	<b>6,390</b>

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- (1) Amounts represent the gross fair value of derivative assets and liabilities. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The amount or timing of cash collateral balances may impact the classification of the derivative in the Consolidated Statement of Financial Position.
- (2) The gross fair value of the Company's asset derivatives for commodity contracts totaling \$(15.9) million was offset by a cash collateral receivable of \$25.9 million, resulting in a net asset of \$10.0 million as of July 31, 2011. Conversely, the gross fair value of the Company's liability derivatives for commodity contracts totaling (\$75.5) million was offset by a cash collateral liability of \$81.3 million, resulting in a net liability of \$5.8 million as of July 31, 2011. See Note I - Fair Value Measurements for a discussion of these 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 31, 2011, and July 25, 2010, were as follows:

	Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Three Months Ended		Location on Consolidated Statements 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 31, 2011	July 25, 2010		July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
<b>Cash Flow Hedges:</b>							
Commodity contracts	\$ 537	\$ 2,914	Cost of products sold	\$ 15,257	\$ (6,444)	\$ (2,806)	\$ 1,205

	Location on Consolidated Statements 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 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
<b>Fair Value Hedges:</b>					
Commodity contracts	Cost of products sold	\$ (4,232)	\$ (773)	\$ 346	\$ 12

	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Three Months Ended	
		July 31, 2011	July 25, 2010
<b>Derivatives Not Designated as Hedges:</b>			
Commodity contracts	Cost of products sold	\$ (58)	\$ (131)
Foreign exchange contracts	Net sales	\$ 113	\$ 42

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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 31, 2011, and July 25, 2010, were as follows:

	Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Nine Months Ended		Location on Consolidated Statements 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 31, 2011	July 25, 2010		July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
	<b>Cash Flow Hedges:</b>						
Commodity contracts	\$ 41,200	\$ (14,070)	Cost of products sold	\$ 29,714	\$ (24,312)	\$ (8,134)	\$ 1,239

	Location on Consolidated Statements 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 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
		<b>Fair Value Hedges:</b>			
Commodity contracts	Cost of products sold	\$ (15,896)	\$ (2,121)	\$ (73)	\$ 123

	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Nine Months Ended	
		July 31, 2011	July 25, 2010
		<b>Derivatives Not Designated as Hedges:</b>	
Commodity contracts	Cost of products sold	\$ (2,005)	\$ (37)
Foreign exchange contracts	Net sales	\$ (78)	\$ 42

- (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 of fiscal years 2011 and 2010.
- (3) There were no gains or losses resulting from the discontinuance of cash flow hedges during the third quarter or nine months of fiscal years 2011 and 2010. However, effective January 30, 2011, the Company de-designated and discontinued hedge accounting for its soybean meal futures contracts. At the date of de-designation of these hedges, gains of \$17.7 million (before tax) were deferred in AOCL, with \$8.2 million (before tax) remaining as of July 31, 2011. These gains will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of de-designation have been recognized in earnings as incurred.
- (4) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the third quarter or nine months of fiscal years 2011 and 2010, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.
- (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 of fiscal years 2011 and 2010.

**NOTE 1**      **FAIR VALUE MEASUREMENTS**

Pursuant to the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), the Company measures certain assets and liabilities at fair value or discloses the fair value of certain assets and liabilities recorded at cost in the consolidated financial statements. Fair value is calculated 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 establishes a fair value hierarchy which requires assets and liabilities measured at fair value to be categorized into one of three levels based on



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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:

**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 31, 2011, and October 31, 2010, and their level within the fair value hierarchy, are presented in the tables below.

(in thousands)	Fair Value Measurements at July 31, 2011			
	Fair Value at July 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets at Fair Value:</b>				
Cash equivalents (1)	\$ 383,467	\$ 383,467	\$	\$
Short-term marketable securities (2)	76,125	1,511	74,614	
Other trading securities (3)	105,771	35,651	70,120	
Commodity derivatives (4)	9,987	9,987		
<b>Total Assets at Fair Value</b>	<b>\$ 575,350</b>	<b>\$ 430,616</b>	<b>\$ 144,734</b>	<b>\$</b>
<b>Liabilities at Fair Value:</b>				
Commodity derivatives (4)	\$ 5,756	\$ 4,094	\$ 1,662	\$
Foreign exchange contracts (5)	61		61	
Deferred compensation (3)	41,556	15,472	26,084	
<b>Total Liabilities at Fair Value</b>	<b>\$ 47,373</b>	<b>\$ 19,566</b>	<b>\$ 27,807</b>	<b>\$</b>

(in thousands)	Fair Value Measurements at October 31, 2010			
	Fair Value at October 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets at Fair Value:</b>				
Cash equivalents (1)	\$ 360,064	\$ 360,064	\$	\$
Short-term marketable securities (2)	50,595	66	50,529	
Other trading securities (3)	109,153	49,889	59,264	
Commodity derivatives (4)	11,604	11,604		

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<b>Total Assets at Fair Value</b>	\$	531,416	\$	421,623	\$	109,793	\$
<b>Liabilities at Fair Value:</b>							
Commodity derivatives (4)	\$	6,390	\$		\$	6,390	\$
Deferred compensation (3)		42,141		13,298		28,843	
<b>Total Liabilities at Fair Value</b>	\$	48,531	\$	13,298	\$	35,233	\$

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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.
- (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, option contracts, and swaps used in its hedging or other 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 and options contracts for corn and soybean meal are traded on the Chicago Board of Trade (CBOT), while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. The Company's 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 the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of July 31, 2011, the Company has recognized the right to reclaim cash collateral of \$25.9 million from, and the obligation to return cash collateral of \$81.3 million to, various counterparties. As of October 31, 2010, the Company had recognized the obligation to return cash collateral of \$44.9 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.

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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 \$265.3 million as of July 31, 2011, and \$371.8 million as of October 31, 2010.

In accordance with the provisions of ASC 820, the Company also measures certain nonfinancial assets and liabilities at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). 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 31, 2011, and 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 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Service cost	\$ 6,052	\$ 5,404	\$ 18,155	\$ 16,187
Interest cost	12,570	11,957	37,711	35,545
Expected return on plan assets	(15,747)	(13,521)	(47,242)	(40,565)
Amortization of prior service cost	(152)	(149)	(455)	(447)
Recognized actuarial loss	4,159	4,128	12,475	11,889
Settlement charge				1,267
Curtailment charge				55
Net periodic cost	\$ 6,882	\$ 7,819	\$ 20,644	\$ 23,931

(in thousands)	Post-retirement Benefits			
	Three Months Ended		Nine Months Ended	
	July 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
Service cost	\$ 543	\$ 590	\$ 1,628	\$ 1,778
Interest cost	4,683	4,998	14,049	15,124
Amortization of prior service cost	1,074	1,009	3,267	3,161
Recognized actuarial (gain) loss	(1)	628	(3)	1,794
Net periodic cost	\$ 6,299	\$ 7,225	\$ 18,941	\$ 21,857

During the third quarter of fiscal 2011, the Company made discretionary contributions of \$23.6 million to fund its pension plans, compared to discretionary contributions of \$20.2 million during the third quarter of fiscal 2010. 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 31, 2011, recorded in other long-term liabilities was \$22.3 million, of which \$17.4 million 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 \$(6.1) million and \$(4.6) million included in expense in the third quarter and first nine months,

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respectively, of fiscal 2011. The amount of accrued interest and penalties at July 31, 2011, associated with unrecognized tax benefits was \$6.3 million.

During the third quarter of fiscal year 2011, the liability for gross unrecognized tax benefits decreased by \$13.0 million (excluding interest and penalties), primarily due to the settlement of various state income tax audits. The net impact to tax expense resulting from the decrease in gross unrecognized tax benefits (including interest, penalties, and other offsetting items) was a reduction of \$4.4 million. There were no material adjustments to the liability for unrecognized tax benefits during the third quarter of fiscal year 2010.

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, and opened its examination for fiscal years 2008 and 2009. 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.

**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 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 50.01 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 expense (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 reportable 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 31, 2011	July 25, 2010	July 31, 2011	July 25, 2010
<b>Sales to Unaffiliated Customers</b>				
Grocery Products	\$ 245,368	\$ 235,034	\$ 782,540	\$ 753,343
Refrigerated Foods	1,045,874	950,075	3,097,200	2,735,847
Jennie-O Turkey Store	327,809	295,862	1,058,279	908,364
Specialty Foods	207,025	187,065	603,371	570,941
All Other	84,516	62,415	249,801	189,185
Total	\$ 1,910,592	\$ 1,730,451	\$ 5,791,191	\$ 5,157,680
<b>Intersegment Sales</b>				
Grocery Products	\$ 0	\$ 0	\$ 0	\$ 0
Refrigerated Foods	4,313	2,346	9,765	6,156
Jennie-O Turkey Store	32,059	30,151	93,202	78,458
Specialty Foods	22	38	104	92
All Other	0	0	0	0
Total	\$ 36,394	\$ 32,535	\$ 103,071	\$ 84,706
Intersegment elimination	(36,394)	(32,535)	(103,071)	(84,706)
Total	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net Sales</b>				
Grocery Products	\$ 245,368	\$ 235,034	\$ 782,540	\$ 753,343
Refrigerated Foods	1,050,187	952,421	3,106,965	2,742,003
Jennie-O Turkey Store	359,868	326,013	1,151,481	986,822
Specialty Foods	207,047	187,103	603,475	571,033
All Other	84,516	62,415	249,801	189,185
Intersegment elimination	(36,394)	(32,535)	(103,071)	(84,706)
Total	\$ 1,910,592	\$ 1,730,451	\$ 5,791,191	\$ 5,157,680
<b>Segment Operating Profit</b>				
Grocery Products	\$ 30,428	\$ 25,596	\$ 118,038	\$ 112,788
Refrigerated Foods	56,820	64,539	223,204	190,250
Jennie-O Turkey Store	34,851	30,664	155,379	96,100
Specialty Foods	18,141	19,703	54,583	60,841
All Other	8,043	4,823	26,480	16,678
Total segment operating profit	\$ 148,283	\$ 145,325	\$ 577,684	\$ 476,657
Net interest and investment expense (income)	5,484	6,183	16,837	17,452
General corporate expense	2,944	5,705	26,165	25,459
Noncontrolling interest	1,483	994	3,815	2,729
Earnings before income taxes	\$ 141,338	\$ 134,431	\$ 538,497	\$ 436,475



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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 31, 2010.

**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 reportable segments as described in Note L in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

A two-for-one split of the Company's common stock was effected on February 1, 2011. All shares and per share calculations for the current and prior year throughout the following discussion reflect the impact of this split.

For the third quarter of fiscal 2011, the Company reported net earnings per diluted share of \$0.36, an increase of 12.5 percent compared to \$0.32 per diluted share in the third quarter of fiscal 2010. Significant factors impacting the third quarter of fiscal 2011 were:

- Jennie-O Turkey Store had another solid quarter, reflecting increased value-added sales and improved efficiencies.
- Grocery Products profits showed improvement due to strong sales of core product lines and favorable joint venture results.
- Strong export sales of fresh pork resulted in significant profit gains for the All Other segment.
- Refrigerated Foods profits declined due primarily to lower pork operating margins.
- Profits for Specialty Foods were negatively impacted by continued high raw material costs.
- The Company's effective tax rate was favorably impacted by the resolution of tax matters with federal and various state tax jurisdictions.

### Consolidated Results

Net earnings attributable to the Company for the third quarter of fiscal 2011 increased 15.4 percent to \$98.5 million compared to \$85.4 million in the same quarter of fiscal 2010. Diluted earnings per share for the third quarter increased to \$0.36 from \$0.32 last year. Net earnings attributable to the Company for the first nine months of fiscal 2011 increased 24.0 percent to \$356.9 million, from \$287.8 million adjusted(1) net earnings attributable to the Company in fiscal 2010. Diluted earnings per share for the same period increased 23.6 percent to \$1.31 compared to \$1.06 adjusted(1) diluted earnings per share last year.

On a U.S. GAAP basis, net earnings attributable to the Company for the first nine months of fiscal 2011 increased 30.0 percent to \$356.9 million, from \$274.4 million in fiscal 2010. U.S. GAAP diluted earnings per share for the same period increased 29.7 percent to \$1.31 compared to \$1.01 last year.

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**(1) Adjusted Net Earnings:** Adjusted net earnings and adjusted diluted earnings per share for fiscal 2010 are non-GAAP financial measurements, which 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.

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Adjusted net earnings for the nine months of fiscal 2010 exclude charges of \$6.3 million (\$0.02 per diluted share) relating to the closure of the Company's Valley Fresh plant in Turlock, California, and an income tax charge of \$7.1 million (\$0.03 per diluted share) primarily due to the change in tax treatment of Medicare Part D reimbursements by health care laws enacted in the prior year. The following table shows the calculations to reconcile from adjusted earnings to U.S. GAAP earnings for 2010.

(in thousands) Nine Months ended July 25, 2010	2010 Adjusted Earnings	Valley Fresh Plant Closure	Tax items primarily related to health care laws	2010 U.S. GAAP Earnings
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	\$ 1.06	\$ (0.02)	\$ (0.03)	\$ 1.01

Net sales for the third quarter of fiscal 2011 increased 10.4 percent to \$1.91 billion, versus \$1.73 billion in fiscal 2010. Tonnage remained flat at 1.12 billion lbs. for the third quarter compared to the same quarter of last year. Net sales for the first nine months of fiscal 2011 increased 12.3 percent to \$5.79 billion from \$5.16 billion in the nine months of fiscal 2010. Tonnage for the first nine months increased 3.6 percent to 3.58 billion lbs. compared to 3.46 billion lbs. in 2010. Each of the five reporting segments of the Company has now reported a year-over-year net sales increase for six consecutive quarters. Both net sales and tonnage for value-added retail products have continued to grow throughout fiscal 2011, most notably for the Refrigerated Foods and Jennie-O Turkey Store (JOTS) segments. Strong export sales of fresh pork have also benefitted the top-line results for fiscal 2011. For the first nine months, JOTS sales of commodity meat and whole birds were also up significantly compared to fiscal 2010. Pricing initiatives taken in response to higher input costs across the majority of the Company's product portfolios have further enhanced the comparative sales results versus fiscal 2010, and have contributed to net sales growth outpacing tonnage growth for both the third quarter and nine month period.

Gross profit for the third quarter and first nine months of fiscal 2011 was \$297.9 million and \$998.1 million, respectively, compared to \$284.9 million and \$883.8 million for the same periods last year. Gross profit as a percentage of net sales for the third quarter and first nine months of fiscal 2011 was 15.6 percent and 17.2 percent, versus 16.5 percent and 17.1 percent for the comparable periods in the prior year. Gross profit for the nine months of fiscal 2010 included a charge of \$9.7 million incurred in the prior year related to the closing of the Company's Valley Fresh plant. Despite rising grain costs, JOTS was able to generate margin improvement again during the third quarter due to robust value-added sales, favorable commodity meat margins, and ongoing operational efficiencies. Strong margins generated on fresh pork exports also enhanced margin results for the Company's international business in the All Other segment. In the third quarter, the spread between hog costs and primal values was not as favorable as it has been in the past several quarters, resulting in pork operating margins that were significantly weaker than the third quarter of fiscal 2010. While pricing initiatives were able to generate some margin improvement for the value-added businesses within Refrigerated Foods, those gains were not enough to offset the substantially lower margins in pork operations as compared to the prior year third quarter. High raw material costs have also generated overall margin declines for the Specialty Foods segment throughout fiscal 2011.

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Looking forward, higher raw material costs are expected to continue to impact margins for the Company's value-added businesses. Although the Company has been able to maintain favorable volumes to date, the impact of the higher pricing taken to recover these input costs will continue to be monitored during the remainder of the fiscal year. Seasonally lower hog costs are anticipated during the late summer and fall months, and the Company expects pork operating margins to remain higher than historical levels, but lower than a year ago during the fourth quarter. The turkey industry remains in good balance and that status is expected to continue. However, margins for JOTS will be negatively impacted by rising grain costs that will continue to cycle in throughout upcoming quarters.

Selling, general and administrative expenses for the third quarter and nine months of fiscal 2011 were \$156.6 million and \$461.9 million, respectively, compared to \$146.5 million and \$438.8 million last year. Due to significant sales growth, selling, general and administrative expenses as a percentage of net sales decreased to 8.2 percent and 8.0 percent for the third quarter and first nine months of fiscal 2011, respectively, compared to 8.5 percent for both the third quarter and first nine months of the prior year. The nine month increase also reflects higher expense incurred due to the vesting of options under the Universal Stock Option award granted to all employees in 2007, which occurred during the first quarter of fiscal 2011. Brokerage and other compensation related expenses were also higher for both the third quarter and first nine months compared to fiscal 2010. The Company's investment in advertising has also increased for the first nine months to date, with additional initiatives planned throughout the remainder of the fiscal year. Marketing and advertising efforts will focus on the new design and varieties of the *Hormel Compleats* microwave product line during the fourth quarter, and the Company will continue to support its other *Hormel* branded products as part of the ongoing "Life Better Served" campaign. The "Make the Switch" campaign for *Jennie-O Turkey Store* turkey burgers has also been resumed for the summer and fall months with new television advertising. The Company expects selling, general and administrative expenses to be approximately 8.0 percent of net sales for the full 2011 fiscal year.

Equity in earnings of affiliates was \$5.6 million and \$19.1 million for the third quarter and first nine months of fiscal 2011, respectively, compared to \$2.2 million and \$9.0 million last year. Improved results were reported across all of the Company's joint ventures during the third quarter, most notably from its 50 percent owned MegaMex joint venture. The increase for the nine months compared to the prior year also primarily reflects growth for MegaMex, as well as favorable results for the Company's 40 percent owned Philippine joint venture, Purefoods-Hormel Company.

The effective tax rates for the third quarter and nine months of fiscal 2011 were 29.3 and 33.0 percent, respectively, compared to 35.8 and 36.5 percent for the comparable quarter and nine months of fiscal 2010. The lower third quarter and nine month rates compared to the prior year primarily reflect favorable discrete items resulting from the resolution of tax matters with federal and various state tax jurisdictions. Additionally, the higher rate for the nine months of fiscal 2010 reflected a change in the tax treatment of Medicare Part D subsidies, resulting from new health care laws enacted at that time. The Company expects a full-year effective tax rate between 33.0 and 34.0 percent for fiscal 2011.

Table of Contents**Segment Results**

Net sales and operating profits for each of the Company's reportable 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)	July 31, 2011	Three Months Ended July 25, 2010	% Change	July 31, 2011	Nine Months Ended July 25, 2010	% Change
<b>Net Sales</b>						
Grocery Products	\$ 245,368	\$ 235,034	4.4	\$ 782,540	\$ 753,343	3.9
Refrigerated Foods	1,045,874	950,075	10.1	3,097,200	2,735,847	13.2
Jennie-O Turkey Store	327,809	295,862	10.8	1,058,279	908,364	16.5
Specialty Foods	207,025	187,065	10.7	603,371	570,941	5.7
All Other	84,516	62,415	35.4	249,801	189,185	32.0
Total	\$ 1,910,592	\$ 1,730,451	10.4	\$ 5,791,191	\$ 5,157,680	12.3
<b>Segment Operating Profit</b>						
Grocery Products	\$ 30,428	\$ 25,596	18.9	\$ 118,038	\$ 112,788	4.7
Refrigerated Foods	56,820	64,539	(12.0)	223,204	190,250	17.3
Jennie-O Turkey Store	34,851	30,664	13.7	155,379	96,100	61.7
Specialty Foods	18,141	19,703	(7.9)	54,583	60,841	(10.3)
All Other	8,043	4,823	66.8	26,480	16,678	58.8
Total segment operating profit	\$ 148,283	\$ 145,325	2.0	\$ 577,684	\$ 476,657	21.2
Net interest and investment expense (income)	5,484	6,183	(11.3)	16,837	17,452	(3.5)
General corporate expense	2,944	5,705	(48.4)	26,165	25,459	2.8
Noncontrolling interest	1,483	994	49.2	3,815	2,729	39.8
Earnings before income taxes	\$ 141,338	\$ 134,431	5.1	\$ 538,497	\$ 436,475	23.4

**Grocery Products**

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 joint venture.

Grocery Products net sales increased 4.4 percent and 3.9 percent for the third quarter and nine months of fiscal 2011, respectively, compared to the same fiscal 2010 periods. Tonnage increased 0.6 percent for the third quarter and 2.6 percent for the first nine months compared to the prior year. Improved volumes and pricing initiatives benefitted top-line results for key product lines during the third quarter, including the SPAM family of products, *Hormel Mary Kitchen* hash, and Mexican food products within the Company's MegaMex joint venture. Sales of *Hormel Compleats* microwave meals also grew during the third quarter. The *Compleats* product line will receive advertising support in the fourth quarter coinciding with the introduction of a new package label system designed to highlight the range of items offered, which should continue to enhance top-line results for this product line.

Segment profit for Grocery Products increased 18.9 percent for the third quarter compared to fiscal 2010. For the first nine months of fiscal 2011, segment profit for Grocery Products declined 3.7 percent compared to adjusted segment profit in the prior year, which excludes a non-recurring charge of \$9.7 million related to the

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closing of the Company's Valley Fresh plant incurred during the second quarter of fiscal 2010 (see table below). On a U.S. GAAP basis, Grocery Products segment profit increased 4.7 percent for the nine months compared to the same period of fiscal 2010.

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

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

Higher pork and beef raw material costs have challenged Grocery Products throughout fiscal 2011, and have negatively impacted margins across its product portfolio. Profitability was most significantly impacted during the first half of the fiscal year, and pricing initiatives taken at that time have now begun to temper these elevated input costs in the latter half. Positive equity in earnings results from the MegaMex joint venture have continued to provide a significant benefit for both the third quarter and nine months of fiscal 2011 compared to the prior year, and have also offset a portion of the higher input costs incurred. In the fourth quarter, MegaMex has completed the acquisition of Fresherized Foods, which produces *Wholly Guacamole*®, *Wholly Salsa*® and *Wholly Queso*® products for retail and foodservice channels. The Company's 50 percent share of this business should continue to enhance equity in earnings results in future quarters.

The Company expects margin pressure to continue for Grocery Products due to high raw material costs throughout the end of fiscal 2011. Pricing initiatives taken earlier in the year should continue to mitigate these costs during the fourth quarter. Additional volumes generated as a result of upcoming media campaigns are also expected to improve results for the remainder of the current year and into fiscal 2012.

**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 50.01 percent owned joint venture between Hormel Foods Corporation and Cargill Meat Solutions Corporation, a wholly-owned subsidiary of Cargill, Incorporated.

Net sales for the Refrigerated Foods segment increased 10.1 percent and 13.2 percent for the third quarter and first nine months of fiscal 2011, respectively, compared to the same periods of fiscal 2010. Tonnage decreased 0.9 percent for the third quarter and increased 1.7 percent for the first nine months, compared to last year. Net sales gains were distributed across the segment, with all key business units showing substantial increases compared to the prior year. Overall tonnage was flat, partially reflecting the impact of recent pricing advances. Tonnage was also impacted by additional fresh hams being processed internally for upcoming holiday ham business that resulted in lower sales externally compared to fiscal 2010. Continued support of the *Hormel* brand through the ongoing *Life Better Served* advertising campaign should continue to benefit top-line results for this segment going forward.

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Demand for value-added products within Refrigerated Foods continued to be strong in the third quarter. Within the Meat Products business unit, notable gains were reported on key retail items, including *Hormel* pepperoni, *Hormel* bacon, *Hormel* party trays, and *Hormel Natural Choice* deli products. The *Hormel Country Crock*® side dish business also experienced favorable sales results following the conversion to a more consumer friendly easy-peel package during the third quarter. *Country Crock*® remains a registered trademark of the Unilever Group of Companies and is being used under license. The Affiliated Business Units also reported a net sales gain for the third quarter, with the largest gains attributable to the Farmer John and Burke Corporation businesses. Despite ongoing challenges in the foodservice trade, the Company was also able to grow sales of



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branded products such as *Natural Choice* deli meats, *Austin Blues* barbeque products, and *Café H* ethnic meats during the quarter.

Segment profit for Refrigerated Foods decreased 12.0 percent for the third quarter and increased 17.3 percent for the first nine months of fiscal 2011, respectively, compared to the prior year. The Company processed 7.02 million hogs during the first nine months of fiscal 2011, increasing from 6.90 million in the same period of the prior year. As anticipated, pork operating margins were significantly weaker than fiscal 2010 during the third quarter. Pricing initiatives implemented during the second and third quarter of fiscal 2011 were able to alleviate some of the margin pressure on the segment's value-added product lines, but the improvements in those businesses were not able to fully overcome the year-over-year loss generated by the lower pork operating margins in the third quarter.

For the fourth quarter, pork operating margins are expected to return to more historical levels. However, they will likely remain well below the margins that were experienced in the prior year, creating a difficult comparison for Refrigerated Foods versus the strong results in the fourth quarter of fiscal 2010. Raw materials remain at or near all time highs, but a seasonal decline in hog markets is expected entering the late summer and fall months. Although overall volumes to date have held steady following the implementation of recent price increases, the Company will continue to monitor the impact on demand throughout 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 10.8 percent and 16.5 percent for the third quarter and the first nine months of fiscal 2011, respectively, versus the comparable periods of fiscal 2010. Tonnage decreased 2.7 percent for the third quarter and increased 6.3 percent for the first nine months, compared to fiscal 2010 results. Improved value-added business drove the top-line results, with both net sales and tonnage increasing for the third quarter and first nine months compared to fiscal 2010. Favorable commodity pricing throughout fiscal 2011 has also contributed to a substantial increase in commodity meat sales compared to the prior year. For the first nine months, improved sales of whole birds also provided a significant benefit.

Segment profit for JOTS was up 13.7 percent for the third quarter and 61.7 percent for the first nine months, compared to the prior year. Increased value-added sales were a key driver of the improved profitability, as well as ongoing operational and efficiency gains achieved throughout the business. Favorable commodity meat margins have also generated substantial year-over-year gains for the first nine months of fiscal 2011. However, the rising and volatile grain markets that have persisted in recent months began to negatively impact margin results for JOTS during the third quarter and are expected to continue. Pricing initiatives and the Company's hedging programs have been able to offset these costs to date in fiscal 2011.

JOTS has continued to build momentum across its value-added businesses during fiscal 2011, with the third quarter again showing sales growth in all three of the retail, deli, and foodservice business units. Sales of *Jennie-O Turkey Store* retail tray pack fresh turkey, turkey burgers, turkey franks, and turkey bacon were all particularly strong. The Company has resumed its "Make the Switch" marketing campaign for JOTS during the summer and fall months. This campaign has already enhanced sales results for this segment and should provide additional benefit in upcoming quarters.

The Company expects the industry meat supply to be favorable during the fourth quarter. However, higher grain markets are also likely to continue throughout the remainder of the fiscal year, and the Company's current hedge positions will not be able to fully offset the increased cost. Additional pricing initiatives on value-added items may be considered to recover a portion of the higher input costs. Based on current conditions, the Company expects the fourth quarter profit comparison for JOTS to be challenging due to the exceptional results that were reported in the prior year.

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**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 10.7 percent for the third quarter and 5.7 percent for the first nine months of fiscal 2011, respectively, compared to the same periods of fiscal 2010. Tonnage was flat for the third quarter and increased 4.2 percent for the first nine months, compared to the prior year. Top-line gains were reported by all three operating segments within Specialty Foods, reflecting favorable changes in product mix and recent pricing initiatives. Sales of private label canned meats, sugar, liquid portion products, nutritional products, and blended products were all strong during the third quarter.

Specialty Foods segment profit decreased 7.9 percent in the third quarter and 10.3 percent for the first nine months, compared to fiscal 2010 results. Raw material costs have negatively impacted this segment throughout fiscal 2011, and were higher than anticipated during the third quarter, most notably for sugar and dairy items. The improved sales results for HSP and DCB were unable to fully offset these higher input costs, resulting in profit declines for both operating segments. A more favorable product mix at CFI did generate improved results compared to the prior year, driven by increased volumes of nutritional and blended products and reductions in toll-based contract manufacturing business.

Specialty Foods expects to see year-over-year improvement in profitability in the fourth quarter. Although high raw material costs remain a concern, pricing initiatives implemented through the third quarter should improve margin results for this segment going forward. Additional pricing will be implemented in the fourth quarter, where possible, on items most impacted by recent dairy raw material cost increases. The Company also continues to pursue opportunities to expand distribution and gain new business for this segment, which should benefit overall results in future quarters.

**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 35.4 percent and 32.0 percent for the third quarter and first nine months of fiscal 2011, respectively, as compared to fiscal 2010. Export sales of fresh pork have been particularly strong throughout fiscal 2011 and continue to drive the favorable top-line results. Although sales of the *SPAM* family of products were flat for the third quarter, these items have also contributed significantly to the increase for the first nine months compared to the prior year. Segment profit increased 66.8 percent for the third quarter and 58.8 percent for the first nine months of fiscal 2010, respectively, compared to prior year results. Raw material costs remained high during the third quarter, but were more than offset by the increased export volumes, higher royalties, and favorable currency rates. Additionally, improved results from the Company's China operations and its international joint ventures have contributed to the increased profitability for both the third quarter and nine months

compared to fiscal 2010.

The Company expects pork exports to remain strong for the remainder of the fiscal year, reflecting strong global demand. Additional growth from the Company's international joint ventures is also expected to provide continued benefit during the fourth quarter.

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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 expense (income) for the third quarter and first nine months of fiscal 2011 represented a net expense of \$5.5 million and \$16.8 million, respectively, compared to a net expense of \$6.2 million and \$17.5 million for the comparable quarter and nine months of fiscal 2010. Lower returns on the Company's rabbi trust for supplemental executive retirement plans and deferred income plans have been offset by increased interest income and currency gains during fiscal 2011. Interest expense of \$19.4 million for the first nine months of fiscal 2011 has decreased from \$19.6 million in the prior year due to a lower overall long-term debt balance and interest rate compared to fiscal 2010. The Company anticipates that interest expense will approximate \$22.0 to \$23.0 million for fiscal 2011.

General corporate expense for the third quarter and first nine months of fiscal 2011 was \$2.9 million and \$26.2 million, respectively, compared to \$5.7 million and \$25.5 million for the comparable periods of fiscal 2010. Expenses for both the third quarter and nine months were impacted by a reduction in the lower of cost or market inventory reserve. For the nine months, that reduction was offset by higher pension and insurance expenses and increased expense related to the vesting of options under the Universal Stock Option award granted to all employees in 2007, which occurred during the first quarter of fiscal 2011.

Net earnings attributable to the Company's noncontrolling interests were \$1.5 million and \$3.8 million for the third quarter and nine months of fiscal 2011, respectively, compared to \$1.0 million and \$2.7 million for the comparable periods of fiscal 2010. The increases for fiscal 2011 reflect improved performance from both the Company's Precept Foods business and its China operations.

**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 31, 2010.

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**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$497.4 million at the end of the third quarter of fiscal year 2011 compared to \$376.9 million at the end of the comparable fiscal 2010 period.

Cash provided by operating activities was \$319.4 million in the first nine months of fiscal 2011 compared to \$271.6 million in the same period of fiscal 2010. Increased earnings in fiscal 2011 are the key driver of the improved operating cash flows compared to the prior year. Overall unfavorable changes in working capital balances compared to fiscal 2010, primarily accounts payable and other accrued expenses, have partially offset the cash generated by the higher earnings. The Company made a discretionary contribution of \$23.6 million in the third quarter of fiscal 2011 to fund its pension plans, compared to a contribution of \$20.2 million in the third quarter of fiscal 2010.

Cash used in investing activities decreased to \$73.0 million in the first nine months of fiscal 2011 from \$169.5 million in the comparable period of fiscal 2010. Fiscal 2010 included a \$50.0 million investment in marketable securities, compared to a net investment of \$20.0 million in the current year. Other significant outflows for fiscal 2010 included 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 \$56.3 million from \$63.8 million in the comparable period of fiscal 2010. The Company currently estimates its fiscal 2011 fixed asset expenditures to be approximately \$85.0 to \$95.0 million.

Cash used in financing activities was \$217.0 million in the first nine months of fiscal 2011 compared to \$110.5 million in the same period of fiscal 2010. The Company repaid \$350.0 million of its senior unsecured notes that matured during the third quarter of fiscal 2011, which more than offset the inflow that was generated by the issuance of \$250.0 million of new 4.125% Notes due in 2021 that were issued during the second quarter.

The Company also used \$80.6 million for common stock repurchases for the first nine months of fiscal 2011, compared to \$53.2 million for 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 to share repurchases in fiscal 2011 were offset by additional proceeds of \$33.8 million above the prior year generated from exercises under the Company's stock option plan, partially due to the vesting of options under the Universal Stock Option award granted to all employees in 2007.

Cash dividends paid to the Company's shareholders also continue to be an ongoing financing activity for the Company. Dividends paid in the first nine months of fiscal 2011 were \$96.0 million compared to \$81.4 million in the comparable period of fiscal 2010. For fiscal 2011, the annual dividend rate was increased to \$0.51 per share, representing the 45th consecutive annual dividend increase. The Company has paid dividends for 332 consecutive quarters (marking its 83rd year) and expects to continue doing so.

Cash flows from operating activities continue to provide the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flows from this source in the foreseeable future because the Company operates in a relatively stable industry and has strong brands across many product lines.

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The Company has continued to maintain a very strong cash position throughout fiscal 2011. Subsequent to the end of the third quarter, MegaMex Foods LLC, a joint venture between the Company and Herdez Del Fuerte, S.A. de C.V., completed the acquisition of Fresherized Foods. Fresherized Foods produces *Wholly Guacamole*®, *Wholly Salsa*® and *Wholly Queso*® products. The Company has invested in this business in the fourth quarter, and continues to evaluate other strategic acquisitions to complement its current product portfolios. The Company's other priorities for uses of cash remain investing in its existing businesses and maximizing the value returned to shareholders through dividend increases and share repurchase activity.

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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 31, 2011, was \$22.3 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 31, 2010.

**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 95 percent and 94 percent of the total hogs purchased by the Company during the first nine months of fiscal 2011 and 2010, 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 31, 2011, was \$(8.3) million compared to \$0.6 million as of October 31, 2010.

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 31, 2011, open contracts by \$12.7 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 currently utilizes corn futures, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized gain of \$27.4 million, before tax, on the Consolidated Statement of Financial Position as of July 31, 2011, compared to an unrealized gain of \$46.4 million, before tax, as of October 31, 2010.

The Company measures its market risk exposure on its grain futures contracts 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 31, 2011, open grain contracts by \$10.3 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 \$1.7 million, before tax, on the Consolidated Statement of Financial Position as of July 31, 2011, compared to an unrealized loss of \$6.4 million, before tax, as of October 31, 2010.

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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 31, 2011, open natural gas contracts by \$0.4 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 \$7.5 million. The fair value of the Company's long-term debt 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 31, 2011, the balance of these securities totaled \$181.9 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 \$11.2 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.

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During the third quarter of fiscal year 2011, 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, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws, employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. However, future developments or settlements are uncertain and may require the Company to change such accruals as proceedings progress. Resolution of any currently known matters, either individually or in the aggregate, 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 organisms or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and pathogenic *E.coli*;
- food allergens;
- 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.

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The pathogens which may cause food contamination are found generally in livestock and 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 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; and
- The value of our investments in debt and equity securities may decline, including most significantly the Company's trading securities held in an investment portfolio and 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.

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

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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.

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 in the U.S. has declined. The decrease in the supply of hogs could diminish the utilization of harvest and production 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 all or part of 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 forward buying, 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 changes in these market conditions.

*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;

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

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 employees, consumers, competitors, suppliers, shareholders, or injured persons, and claims relating to product liability, contract disputes, patent infringement, wage and hour laws, employment practices, 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 19,400 domestic and foreign employees, of which approximately 5,500 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. Union contracts at the Company's facilities in Algona, Iowa; Atlanta, Georgia; Austin, Minnesota; Beloit, Wisconsin; Fremont, Nebraska; and San Leandro, California will expire during the fourth quarter of fiscal 2011, covering a combined total of approximately 3,300 employees. Negotiations at these facilities commenced in the third quarter.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2011**

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)
May 2, 2011	June 5, 2011	375,084	\$ 29.39	375,000	7,144,200
June 6, 2011	July 3, 2011	728,000	28.89	728,000	6,416,200
July 4, 2011	July 31, 2011	465,080	29.84	465,000	5,951,200
Total		1,568,164	\$ 29.29	1,568,000	

(1) The 164 shares repurchased during the quarter, other than through publicly announced plans or programs, represent purchases for the Company's employee awards program.

(2) On May 26, 2010, the Company announced that its Board of Directors had authorized the Company to repurchase up to 5,000,000 shares of common stock with no expiration date. On November 22, 2010, the Board of Directors also authorized a two-for-one split of the Company's common stock. As part of the resolution to approve that stock split, the number of shares remaining to be repurchased was adjusted proportionately. The stock split was approved by shareholders and was subsequently effected on February 1, 2011. All numbers in

the table above reflect the impact of this stock split.

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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 9, 2011

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

Date: September 9, 2011

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