

HORMEL FOODS CORP /DE/
Form 10-Q
June 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended May 1, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(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
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

| Class | | Outstanding at June 5, 2011 |
|-------------------------|-------------------|-----------------------------|
| Common Stock | \$.0293 par value | 267,207,133 |
| Common Stock Non-Voting | \$.01 par value | -0- |

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| | May 1, 2011 (Unaudited) | October 31, 2010 |
|---|-------------------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 913,704 | \$ 467,845 |
| Short-term marketable securities | 51,002 | 50,595 |
| Accounts receivable | 405,792 | 430,939 |
| Inventories | 810,388 | 793,771 |
| Income taxes receivable | 4,187 | 8,525 |
| Deferred income taxes | 71,438 | 70,703 |
| Prepaid expenses | 12,756 | 12,153 |
| Other current assets | 17,937 | 23,635 |
| TOTAL CURRENT ASSETS | 2,287,204 | 1,858,166 |
| DEFERRED INCOME TAXES | 53,534 | 72,426 |
| GOODWILL | 630,707 | 629,023 |
| OTHER INTANGIBLES | 136,603 | 141,522 |
| PENSION ASSETS | 64,128 | 61,272 |
| INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES | 222,817 | 214,389 |
| OTHER ASSETS | 150,903 | 155,017 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 55,647 | 54,017 |
| Buildings | 738,892 | 729,718 |
| Equipment | 1,373,275 | 1,358,237 |
| Construction in progress | 43,971 | 45,283 |
| | 2,211,785 | 2,187,255 |
| Less allowance for depreciation | (1,306,264) | (1,265,152) |
| | 905,521 | 922,103 |
| TOTAL ASSETS | \$ 4,451,417 | \$ 4,053,918 |

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

| | May 1, 2011 (Unaudited) | October 31, 2010 |
|---|-------------------------------|---------------------|
| LIABILITIES AND SHAREHOLDERS INVESTMENT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 277,116 | \$ 361,287 |
| Accrued expenses | 45,559 | 46,408 |
| Accrued workers compensation | 33,709 | 33,022 |
| Accrued marketing expenses | 89,947 | 76,552 |
| Employee related expenses | 156,962 | 187,116 |
| Taxes payable | 8,587 | 9,339 |
| Interest and dividends payable | 44,056 | 37,489 |
| Current maturities of long-term debt | 350,000 | 350,000 |
| TOTAL CURRENT LIABILITIES | 1,005,936 | 1,101,213 |
| LONG-TERM DEBT, LESS CURRENT MATURITIES | 250,000 | 0 |
| PENSION AND POST-RETIREMENT BENEFITS | 457,057 | 454,998 |
| OTHER LONG-TERM LIABILITIES | 95,176 | 91,068 |
| SHAREHOLDERS INVESTMENT * | | |
| 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 267,418,190 shares May 1, 2011 | | |
| issued 265,963,080 shares October 31, 2010 | 7,835 | 7,793 |
| Additional paid-in capital | 19,963 | 0 |
| Accumulated other comprehensive loss | (149,099) | (175,910) |
| Retained earnings | 2,759,116 | 2,568,774 |
| HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT | 2,637,815 | 2,400,657 |
| NONCONTROLLING INTEREST | 5,433 | 5,982 |
| TOTAL SHAREHOLDERS INVESTMENT | 2,643,248 | 2,406,639 |
| TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT | \$ 4,451,417 | \$ 4,053,918 |

* 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 | | Six Months Ended | |
|--|--------------------|--------------------|-------------------|--------------------|
| | May 1, 2011 | April 25, 2010* | May 1, 2011 | April 25, 2010* |
| Net sales | \$ 1,959,041 | \$ 1,699,782 | \$ 3,880,599 | \$ 3,427,229 |
| Cost of products sold | 1,632,814 | 1,419,315 | 3,180,367 | 2,828,375 |
| GROSS PROFIT | 326,227 | 280,467 | 700,232 | 598,854 |
| Selling, general and administrative | 160,136 | 146,782 | 305,297 | 292,314 |
| Equity in earnings of affiliates | 6,672 | 3,952 | 13,577 | 6,773 |
| OPERATING INCOME | 172,763 | 137,637 | 408,512 | 313,313 |
| Other income and expense: | | | | |
| Interest and investment income | 1,972 | 1,423 | 2,413 | 1,866 |
| Interest expense | (7,187) | (6,574) | (13,766) | (13,135) |
| EARNINGS BEFORE INCOME TAXES | 167,548 | 132,486 | 397,159 | 302,044 |
| Provision for income taxes | 56,846 | 53,951 | 136,422 | 111,240 |
| NET EARNINGS | 110,702 | 78,535 | 260,737 | 190,804 |
| Less: Net earnings attributable to noncontrolling interest | 1,123 | 673 | 2,332 | 1,735 |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION | \$ 109,579 | \$ 77,862 | \$ 258,405 | \$ 189,069 |
| NET EARNINGS PER SHARE: | | | | |
| BASIC | \$ 0.41 | \$ 0.29 | \$ 0.97 | \$.71 |
| DILUTED | \$ 0.40 | \$ 0.29 | \$ 0.95 | \$.70 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| BASIC | 267,207 | 267,187 | 266,868 | 267,182 |
| DILUTED | 272,847 | 271,157 | 272,293 | 270,941 |
| DIVIDENDS DECLARED PER SHARE: | \$ 0.1275 | \$ 0.1050 | \$ 0.2550 | \$ 0.2100 |

* 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

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

| | Hormel Foods Corporation Shareholders | | | | Accumulated | Non- | Total |
|--|---------------------------------------|----------|------------|--------------|---------------|-------------|--------------|
| | Common | Treasury | Additional | Retained | Other | controlling | Shareholders |
| | Stock | Stock | Paid-in | Earnings | Comprehensive | Interest | Investment |
| | | | Capital | | Income (Loss) | | |
| Balance at October 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 | | | | 258,405 | | 2,332 | 260,737 |
| Foreign currency translation | | | | | 2,218 | 119 | 2,337 |
| Deferred hedging, net of reclassification adjustment | | | | | 16,292 | | 16,292 |
| Pension and other benefits | | | | | 8,301 | | 8,301 |
| Comprehensive income | | | | | | 2,451 | 287,667 |
| Purchases of common stock | | (34,718) | | | | | (34,718) |
| Stock-based compensation expense | | | 12,242 | | | | 12,242 |
| Exercise of stock options/nonvested shares | 81 | (150) | 42,550 | | | | 42,481 |
| Shares retired | (39) | 34,868 | (34,829) | | | | 0 |
| Distribution to noncontrolling interest | | | | | | (3,000) | (3,000) |
| Declared cash dividends \$.255 per share | | | | (68,063) | | | (68,063) |

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Balance at May 1, 2011 \$ 7,835 \$ 0 \$ 19,963 \$ 2,759,116 \$ (149,099) \$ 5,433 \$ 2,643,248

* 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)

| | Six Months Ended | |
|--|-------------------|-------------------|
| | May 1, 2011 | April 25, 2010 |
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 260,737 | \$ 190,804 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 57,362 | 56,261 |
| Amortization of intangibles | 4,919 | 5,210 |
| Equity in earnings of affiliates, net of dividends | (9,546) | (6,773) |
| Provision for deferred income taxes | (3,187) | 3,887 |
| (Gain) Loss on property/equipment sales and plant facilities | (53) | 57 |
| Non-cash investment activities | (478) | (624) |
| Stock-based compensation expense | 12,242 | 9,186 |
| Excess tax benefit from stock-based compensation | (10,255) | (6,330) |
| Other | 0 | 6,595 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Decrease in accounts receivable | 25,147 | 15,932 |
| Increase in inventories | (16,617) | (47,330) |
| Decrease (Increase) in prepaid expenses and other current assets | 45,924 | (2,730) |
| Increase in pension and post-retirement benefits | 12,579 | 14,916 |
| Decrease in accounts payable and accrued expenses | (102,855) | (59,723) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 275,919 | 179,338 |
| INVESTING ACTIVITIES | | |
| Net sale (purchase) of trading securities | 5,000 | (50,000) |
| Acquisitions of businesses/intangibles | (7,207) | (28,144) |
| Purchases of property/equipment | (35,892) | (40,124) |
| Proceeds from sales of property/equipment | 2,171 | 2,369 |
| Decrease (Increase) in investments, equity in affiliates, and other assets | 3,465 | (31,145) |
| NET CASH USED IN INVESTING ACTIVITIES | (32,463) | (147,044) |
| FINANCING ACTIVITIES | | |
| Proceeds from long-term debt, net | 247,657 | 0 |
| Dividends paid on common stock | (61,925) | (53,400) |
| Share repurchase | (34,718) | (29,826) |
| Proceeds from exercise of stock options | 43,764 | 14,201 |
| Excess tax benefit from stock-based compensation | 10,255 | 6,330 |
| Distribution to noncontrolling interest | (3,000) | 0 |
| Other | 370 | 330 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 202,403 | (62,365) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 445,859 | (30,071) |
| Cash and cash equivalents at beginning of year | 467,845 | 385,252 |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER | \$ 913,704 | \$ 355,181 |

See Notes to Consolidated Financial Statements

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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.

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.

Investments

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The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Gains related to securities held by the trust were \$1.4 million and \$1.8 million for the second quarter and six months ended May 1, 2011, respectively, compared to gains of \$1.7 million and \$2.5 million for the second quarter and six months ended April 25, 2010. The Company has transitioned the majority of this portfolio to more fixed return investments to reduce the exposure to volatility in equity markets going forward.

The Company also holds securities as part of an investment portfolio, which are classified as short-term marketable securities on the Consolidated Statements of Financial Position. These investments are also trading securities. Therefore, unrealized gains and losses are included in the Company's earnings. The Company recorded a gain of \$0.3 million and \$0.4 million related to these investments during the second quarter and six months ended May 1, 2011, respectively, and an immaterial gain for both the second quarter and six months ended April 25, 2010.

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Supplemental Statement of Operations Information

Net earnings for the second quarter and six months ended April 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.

NOTE C

STOCK-BASED COMPENSATION

The Company issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. The Company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. 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.

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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 May 1, 2011, and changes during the six months then ended, is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at October 31, 2010 | 22,048 | \$ 16.47 | | |
| Granted | 2,648 | 24.95 | | |
| Exercised | (3,673) | 15.42 | | |
| Forfeitures | (16) | 18.71 | | |
| Outstanding at May 1, 2011 | 21,007 | \$ 17.72 | 6.0 years | \$ 245,517 |
| Exercisable at May 1, 2011 | 14,698 | \$ 16.46 | 4.9 years | \$ 190,365 |

The weighted-average grant date fair value of stock options granted, and the total intrinsic value of options exercised (in thousands) during the second quarter and first six months of fiscal years 2011 and 2010, are as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------------|------------------|----------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Weighted-average grant date fair value | \$ 5.67 | \$ 4.77 | \$ 5.54 | \$ 4.55 |
| Intrinsic value of exercised options | \$ 20,648 | \$ 9,451 | \$ 39,187 | \$ 19,225 |

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.

| | Three Months Ended | | Six Months Ended | |
|-------------------------|--------------------|----------------|------------------|----------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Risk-Free Interest Rate | 3.2% | 3.6% | 3.0% | 3.4% |
| Dividend Yield | 2.0% | 2.2% | 2.0% | 2.2% |
| Stock Price Volatility | 21.0% | 22.0% | 21.0% | 22.0% |
| Expected Option Life | 8 years | 8 years | 8 years | 8 years |

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company's Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied

volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee groups.

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The Company's nonvested shares 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 May 1, 2011, and changes during the six 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 May 1, 2011 | 231 | \$ | 19.55 |

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

| | | Six Months Ended | |
|--|-------------|------------------|--|
| | May 1, 2011 | April 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 | \$ 189 | |

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------------|------------------|----------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| (in thousands) | | | | |
| Stock-based compensation expense recognized | \$ 4,002 | \$ 3,824 | \$ 12,242 | \$ 9,186 |
| Income tax benefit recognized | (1,520) | (1,465) | (4,650) | (3,520) |
| After-tax stock-based compensation expense | \$ 2,482 | \$ 2,359 | \$ 7,592 | \$ 5,666 |

At May 1, 2011, there was \$17.1 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.9 years. During the second quarter and six months ended May 1, 2011, cash received from stock option exercises was \$19.8 million and \$43.8 million, respectively, compared to \$7.8 million and \$14.2 million for the second quarter and six months ended April 25, 2010. The total tax benefit to be realized for tax deductions from these option exercises for the second quarter and six months ended May 1, 2011, was \$7.9 million and \$14.9 million, respectively, compared to \$3.7 million and \$7.4 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 six months ended May 1, 2011, is presented in the table below. There were no changes in the carrying amount during the second quarter of fiscal 2011.

| | Grocery Products | | Refrigerated Foods | | JOTS | | Specialty Foods | | All Other | | Total | |
|--------------------------------|------------------|---------|--------------------|--------|------|---------|-----------------|---------|-----------|-----|-------|---------|
| <i>(in thousands)</i> | | | | | | | | | | | | |
| 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 May 1, 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.

| | May 1, 2011 | | | | October 31, 2010 | | | |
|-----------------------------------|-----------------------|--------|--------------------------|----------|-----------------------|--------|--------------------------|----------|
| | Gross Carrying Amount | | Accumulated Amortization | | Gross Carrying Amount | | Accumulated Amortization | |
| <i>(in thousands)</i> | | | | | | | | |
| Customer lists/relationships | \$ | 22,378 | \$ | (11,377) | \$ | 22,378 | \$ | (10,194) |
| Proprietary software & technology | | 22,000 | | (13,573) | | 23,650 | | (13,974) |
| Formulas & recipes | | 18,354 | | (8,964) | | 22,404 | | (11,914) |
| Non-compete covenants | | 5,370 | | (4,976) | | 7,200 | | (6,275) |
| Distribution network | | 4,120 | | (3,165) | | 4,120 | | (2,959) |
| Other intangibles | | 8,660 | | (4,331) | | 9,740 | | (5,011) |
| Total | \$ | 80,882 | \$ | (46,386) | \$ | 89,492 | \$ | (50,327) |

Amortization expense was \$2.4 million and \$4.9 million for the second quarter and six months ended May 1, 2011, respectively, compared to \$2.7 million and \$5.2 million for the second quarter and six months ended April 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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| | May 1, 2011 | | October 31, 2010 | |
|------------------------------|-------------|---------|------------------|---------|
| <u>(in thousands)</u> | | | | |
| 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:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|------------------|-------------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| <u>(in thousands)</u> | | | | |
| Basic weighted-average shares outstanding | 267,207 | 267,187 | 266,868 | 267,182 |
| Dilutive potential common shares | 5,640 | 3,970 | 5,425 | 3,759 |
| Diluted weighted-average shares outstanding | 272,847 | 271,157 | 272,293 | 270,941 |

For the second quarter and six months ended May 1, 2011, 0.8 million and 1.0 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 5.3 million for the second quarter and six months ended April 25, 2010.

NOTE F**COMPREHENSIVE INCOME**

Components of comprehensive income, net of taxes, are:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|------------------|-------------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| <u>(in thousands)</u> | | | | |
| Net earnings | \$ 110,702 | \$ 78,535 | \$ 260,737 | \$ 190,804 |
| Other comprehensive income (loss): | | | | |
| Deferred gain (loss) on hedging | 13,105 | (3,768) | 25,286 | (10,597) |
| Reclassification adjustment into net earnings | (5,729) | 3,890 | (8,994) | 12,158 |
| Foreign currency translation | 2,207 | 1,675 | 2,337 | 2,822 |
| Pension and post-retirement benefits | 3,151 | 3,222 | 8,301 | 6,560 |
| Other comprehensive income | 12,734 | 5,019 | 26,930 | 10,943 |
| Total comprehensive income | 123,436 | 83,554 | 287,667 | 201,747 |
| Comprehensive income attributable to noncontrolling interest | 1,162 | 679 | 2,451 | 1,735 |
| Comprehensive income attributable to Hormel Foods Corporation | \$ 122,274 | \$ 82,875 | \$ 285,216 | \$ 200,012 |

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

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| | May 1, 2011 | October 31, 2010 |
|--------------------------------------|----------------|---------------------|
| <u>(in thousands)</u> | | |
| Foreign currency translation | \$ 11,067 | \$ 8,849 |
| Pension & other benefits | (196,942) | (205,243) |
| Deferred gain on hedging | 36,776 | 20,484 |
| Accumulated other comprehensive loss | \$ (149,099) | \$ (175,910) |

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

Principal components of inventories are:

| <u>(in thousands)</u> | May 1, 2011 | October 31, 2010 |
|-----------------------------------|----------------|---------------------|
| Finished products | \$ 414,878 | \$ 431,285 |
| Raw materials and work-in-process | 244,990 | 211,745 |
| Materials and supplies | 150,520 | 150,741 |
| Total | \$ 810,388 | \$ 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 May 1, 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 | May 1, 2011 | Volume | October 31, 2010 |
|--------------|----------------------|--------|----------------------|
| Corn | 16.9 million bushels | | 21.1 million bushels |
| Soybean Meal | N/A | | 190,400 tons |
| Natural Gas | 1.3 million MMBTU s | | 1.6 million MMBTU s |

As of May 1, 2011, the Company had included in accumulated other comprehensive loss (AOCL), hedging gains of \$59.1 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 May 1, 2011, includes gains of \$14.7 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 May 1, 2011, and October 31, 2010, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

| Commodity | Volume | |
|-----------|----------------------|---------------------|
| | May 1, 2011 | October 31, 2010 |
| Corn | 17.4 million bushels | 9.9 million bushels |
| Lean Hogs | 1.5 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 May 1, 2011, and October 31, 2010, the Company had the following outstanding futures and options contracts related to the programs described above:

| Commodity | Volume | |
|--------------|-------------|---------------------|
| | May 1, 2011 | October 31, 2010 |
| Corn | N/A | 1.5 million bushels |
| Soybean meal | 13,900 tons | 1,200 tons |

| Currency | Notional Amount | |
|------------------|-----------------|------------------|
| | May 1, 2011 | October 31, 2010 |
| Canadian Dollars | C\$ 8.6 million | N/A |

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Fair Values: The fair values of the Company's derivative instruments (in thousands) as of May 1, 2011, and October 31, 2010, were as follows:

| | Location on Consolidated Statements of Financial Position | Fair Value (1) | |
|--|--|------------------|---------------------|
| | | May 1, 2011 | October 31, 2010 |
| Asset Derivatives: | | | |
| Derivatives Designated as Hedges: | | | |
| Commodity contracts | Other current assets | \$ 56,493 | \$ 54,395 |
| Derivatives Not Designated as Hedges: | | | |
| Commodity contracts | Other current assets | 3,040 | 2,137 |
| Total Asset Derivatives | | \$ 59,533 | \$ 56,532 |
| Liability Derivatives: | | | |
| Derivatives Designated as Hedges: | | | |
| Commodity contracts | Accounts payable | \$ 2,164 | \$ 6,390 |
| Derivatives Not Designated as Hedges: | | | |
| Foreign exchange contracts | Accounts payable | 191 | |
| Total Liability Derivatives | | \$ 2,355 | \$ 6,390 |

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

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the second quarter ended May 1, 2011, and April 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 | |
|--------------------------|--|-------------------|--|---|-------------------|---|-------------------|
| | May 1, 2011 | April 25, 2010 | | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Cash Flow Hedges: | | | | | | | |
| Commodity contracts | \$ 21,073 | \$ (6,106) | Cost of products sold | \$ 9,210 | \$ (6,305) | \$ (2,247) | \$ (456) |

| | 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 | |
|---------------------------|--|--|-------------------|---|-------------------|
| | | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Fair Value Hedges: | | | | | |
| Commodity contracts | Cost of products sold | \$ (9,121) | \$ (777) | \$ (297) | \$ 3 |

| | Location on Consolidated Statements of Operations | Gain/(Loss) Recognized in Earnings Three Months Ended | |
|--|--|--|-------------------|
| | | May 1, 2011 | April 25, 2010 |
| Derivatives Not Designated as Hedges: | | | |
| Commodity contracts | Cost of products sold | \$ (2,363) | \$ 78 |
| Foreign exchange contracts | Net sales | \$ (191) | \$ |

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the six months ended May 1, 2011, and April 25, 2010, were as follows:

| | Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Six Months Ended | | Location on Consolidated Statements of Operations | Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Six Months Ended | | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (3) Six Months Ended | |
|--|--|-------------------|--|---|-------------------|---|-------------------|
| | May 1, 2011 | April 25, 2010 | | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Cash Flow Hedges: | | | | | | | |
| Commodity contracts | \$ 40,663 | \$ (16,984) | Cost of products sold | \$ 14,457 | \$ (17,868) | \$ (5,328) | \$ 34 |
| | | | | | | | |
| | | | | | | | |
| Fair Value Hedges: | | | | | | | |
| Commodity contracts | | | Cost of products sold | \$ (11,664) | \$ (1,348) | \$ (419) | \$ 111 |
| | | | | | | | |
| | | | | | | | |
| Derivatives Not Designated as Hedges: | | | | | | | |
| Commodity contracts | | | Cost of products sold | \$ (1,947) | \$ 94 | | |
| | | | | | | | |
| Foreign exchange contracts | | | Net sales | \$ (191) | \$ | | |

(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 second quarter or first six months of fiscal years 2011 and 2010.

(3) There were no gains or losses resulting from the discontinuance of cash flow hedges during the second quarter or first six 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 \$14.7 million (before tax) remaining as of May 1, 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 second quarter or first six 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 second quarter or first six 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

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which requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

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 May 1, 2011, and October 31, 2010, and their level within the fair value hierarchy, are presented in the tables below.

| | Fair Value Measurements at May 1, 2011 | | | |
|--|--|--|---|--|
| | Fair Value at May 1, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>(in thousands)</u> | | | | |
| Assets at Fair Value: | | | | |
| Cash equivalents (1) | \$ 819,186 | \$ 819,186 | \$ | \$ |
| Short-term marketable securities (2) | 51,002 | 1,063 | 49,939 | |
| Other trading securities (3) | 105,951 | 36,474 | 69,477 | |
| Commodity derivatives (4) | 6,054 | 6,054 | | |
| Total Assets at Fair Value | \$ 982,193 | \$ 862,777 | \$ 119,416 | \$ |
| Liabilities at Fair Value: | | | | |
| Commodity derivatives (4) | \$ 2,164 | \$ | \$ 2,164 | \$ |
| Foreign exchange contracts (5) | 191 | | 191 | |
| Deferred compensation (3) | 42,432 | 16,164 | 26,268 | |
| Total Liabilities at Fair Value | \$ 44,787 | \$ 16,164 | \$ 28,623 | \$ |

| | 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) |
| <u>(in thousands)</u> | | | | |
| Assets at Fair Value: | | | | |
| Cash equivalents (1) | \$ 360,064 | \$ 360,064 | \$ | \$ |

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| | | | |
|--|-------------------|-------------------|-------------------|
| 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 | |
| Total Assets at Fair Value | \$ 531,416 | \$ 421,623 | \$ 109,793 |
| Liabilities at Fair Value: | | | |
| Commodity derivatives (4) | \$ 6,390 | \$ | \$ 6,390 |
| Deferred compensation (3) | 42,141 | 13,298 | 28,843 |
| Total Liabilities at Fair Value | \$ 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 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 its derivative assets and liabilities, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each arrangement is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of May 1, 2011, the Company has recognized the right to reclaim cash collateral of \$4.5 million from, and the obligation to return cash collateral of \$57.9 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 \$614.7 million as of May 1, 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 six months ended May 1, 2011, there were no material remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition. 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 estimated fair value. During the six months ended April 25, 2010, there were no other 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 | | Six Months Ended | |
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Service cost | \$ 6,051 | \$ 5,392 | \$ 12,103 | \$ 10,783 |
| Interest cost | 12,571 | 11,794 | 25,141 | 23,588 |
| Expected return on plan assets | (15,748) | (13,522) | (31,495) | (27,044) |
| Amortization of prior service cost | (151) | (149) | (303) | (298) |
| Recognized actuarial loss | 4,158 | 3,880 | 8,316 | 7,761 |
| Settlement charge | | 1,267 | | 1,267 |
| Curtailement charge | | 55 | | 55 |
| Net periodic cost | \$ 6,881 | \$ 8,717 | \$ 13,762 | \$ 16,112 |

| (in thousands) | Post-retirement Benefits | | | |
|------------------------------------|--------------------------|----------------|------------------|----------------|
| | Three Months Ended | | Six Months Ended | |
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| Service cost | \$ 543 | \$ 594 | \$ 1,085 | \$ 1,188 |
| Interest cost | 4,683 | 5,063 | 9,366 | 10,126 |
| Amortization of prior service cost | 1,074 | 1,053 | 2,193 | 2,152 |
| Recognized actuarial (gain) loss | (1) | 583 | (2) | 1,166 |
| Net periodic cost | \$ 6,299 | \$ 7,293 | \$ 12,642 | \$ 14,632 |

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 are related to that plan termination.

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NOTE K **INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at May 1, 2011, recorded in other long-term liabilities was \$43.0 million, of which \$30.2 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 \$0.7 million and \$1.5 million included in expense in the second quarter and first six months, respectively, of fiscal 2011. The amount of accrued interest and penalties at May 1, 2011, associated with unrecognized tax benefits was \$13.9 million.

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 Foods, LLC (MegaMex) joint venture.

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment and the Affiliated Business Units. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. The Affiliated Business Units include the Farmer John, Burke Corporation, Dan's Prize, Saag's Products, Inc., and Precept Foods businesses. Precept Foods, LLC, is a 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

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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.

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|------------------|-------------------|
| | May 1, 2011 | April 25, 2010 | May 1, 2011 | April 25, 2010 |
| (in thousands) | | | | |
| Sales to Unaffiliated Customers | | | | |
| Grocery Products | \$ 260,273 | \$ 256,665 | \$ 537,172 | \$ 518,309 |
| Refrigerated Foods | 1,040,624 | 893,470 | 2,051,326 | 1,785,772 |
| Jennie-O Turkey Store | 365,953 | 292,551 | 730,470 | 612,502 |
| Specialty Foods | 205,001 | 196,934 | 396,346 | 383,876 |
| All Other | 87,190 | 60,162 | 165,285 | 126,770 |
| Total | \$ 1,959,041 | \$ 1,699,782 | \$ 3,880,599 | \$ 3,427,229 |
| Intersegment Sales | | | | |
| Grocery Products | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Refrigerated Foods | 3,198 | 1,747 | 5,452 | 3,810 |
| Jennie-O Turkey Store | 33,885 | 26,982 | 61,143 | 48,307 |
| Specialty Foods | 40 | 35 | 82 | 54 |
| All Other | 0 | 0 | 0 | 0 |
| Total | \$ 37,123 | \$ 28,764 | \$ 66,677 | \$ 52,171 |
| Intersegment elimination | (37,123) | (28,764) | (66,677) | (52,171) |
| Total | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Net Sales | | | | |
| Grocery Products | \$ 260,273 | \$ 256,665 | \$ 537,172 | \$ 518,309 |
| Refrigerated Foods | 1,043,822 | 895,217 | 2,056,778 | 1,789,582 |
| Jennie-O Turkey Store | 399,838 | 319,533 | 791,613 | 660,809 |
| Specialty Foods | 205,041 | 196,969 | 396,428 | 383,930 |
| All Other | 87,190 | 60,162 | 165,285 | 126,770 |
| Intersegment elimination | (37,123) | (28,764) | (66,677) | (52,171) |
| Total | \$ 1,959,041 | \$ 1,699,782 | \$ 3,880,599 | \$ 3,427,229 |
| Segment Operating Profit | | | | |
| Grocery Products | \$ 39,048 | \$ 33,022 | \$ 87,610 | \$ 87,192 |
| Refrigerated Foods | 70,250 | 55,523 | 166,384 | 125,711 |
| Jennie-O Turkey Store | 46,703 | 32,169 | 120,528 | 65,436 |
| Specialty Foods | 19,164 | 21,508 | 36,442 | 41,138 |
| All Other | 8,444 | 4,133 | 18,437 | 11,855 |
| Total segment operating profit | \$ 183,609 | \$ 146,355 | \$ 429,401 | \$ 331,332 |
| Net interest and investment expense (income) | 5,215 | 5,151 | 11,353 | 11,269 |
| General corporate expense | 11,969 | 9,391 | 23,221 | 19,754 |
| Noncontrolling interest | 1,123 | 673 | 2,332 | 1,735 |
| Earnings before income taxes | \$ 167,548 | \$ 132,486 | \$ 397,159 | \$ 302,044 |

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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 second quarter of fiscal 2011, the Company reported net earnings per diluted share of \$0.40, an increase of 17.6 percent compared to \$0.34 adjusted¹ net earnings per diluted share in the second quarter of fiscal 2010. On the basis of U.S. generally accepted accounting principles (U.S. GAAP), the Company's net earnings per diluted share of \$0.40 represented an increase of 37.9 percent from \$0.29 per diluted share in fiscal 2010. Significant factors impacting the second quarter of fiscal 2011 were:

- Refrigerated Foods profits exceeded the prior year, due primarily to continued high pork operating margins.
- Jennie-O Turkey Store reported another excellent quarter, resulting from strong value-added sales, favorable commodity meat margins, and operational efficiencies.
- A substantial increase in exports of fresh pork and the *SPAM* family of products generated profit gains for the All Other segment.
- Profits for the Grocery Products and Specialty Foods segments continued to be negatively impacted by higher raw material costs.

Consolidated Results

Net earnings attributable to the Company for the second quarter of fiscal 2011 increased 20.1 percent to \$109.6 million compared to \$91.3 million adjusted(1) net earnings attributable to the Company in the same quarter of fiscal 2010. Diluted earnings per share for the second quarter increased 17.6 percent to \$0.40 from \$0.34 adjusted(1) diluted earnings per share last year. Net earnings attributable to the Company for the first six months of 2011 increased 27.6 percent to \$258.4 million, from \$202.5 million adjusted(1) net earnings attributable to the Company in fiscal 2010. Diluted earnings per share for the same period increased 26.7 percent to \$0.95 compared to \$0.75 adjusted(1) diluted earnings per share last year.

On a U.S. GAAP basis, net earnings attributable to the Company for the second quarter of fiscal 2011 increased 40.7 percent to \$109.6 million compared to \$77.9 million in the same quarter of fiscal 2010. U.S. GAAP diluted earnings per share for the second quarter increased 37.9 percent to \$0.40 from \$0.29 last year. U.S. GAAP net earnings attributable to the Company for the first six months of fiscal 2011 increased 36.7 percent to \$258.4 million, from \$189.1 million in fiscal 2010. U.S. GAAP diluted earnings per share for the same period increased 35.7 percent to \$0.95 compared to \$0.70 last year.

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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.

1Adjusted Net Earnings: Adjusted net earnings for 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 tables show the calculations to reconcile adjusted earnings to U.S. GAAP earnings for 2010.

| (in thousands) | 2010 Adjusted Earnings | Valley Fresh Plant Closure | Tax items primarily related to health care laws | 2010 U.S. GAAP Earnings |
|---|------------------------------|-------------------------------------|---|-------------------------------|
| Second Quarter ended April 25, 2010 | | | | |
| Earnings before income taxes | \$ 142,219 | \$ (9,733) | \$ | \$ 132,486 |
| Income taxes | 50,286 | (3,455) | 7,120 | 53,951 |
| Net earnings | \$ 91,933 | \$ (6,278) | \$ (7,120) | \$ 78,535 |
| Net earnings attributable to Hormel Foods Corporation | \$ 91,260 | \$ (6,278) | \$ (7,120) | \$ 77,862 |
| Diluted net earnings per share | \$ 0.34 | \$ (0.02) | \$ (0.03) | \$ 0.29 |

| (in thousands) | 2010 Adjusted Earnings | Valley Fresh Plant Closure | Tax items primarily related to health care laws | 2010 U.S. GAAP Earnings |
|---|------------------------------|-------------------------------------|---|-------------------------------|
| Six Months ended April 25, 2010 | | | | |
| Earnings before income taxes | \$ 311,777 | \$ (9,733) | \$ | \$ 302,044 |
| Income taxes | 107,575 | (3,455) | 7,120 | 111,240 |
| Net earnings | \$ 204,202 | \$ (6,278) | \$ (7,120) | \$ 190,804 |
| Net earnings attributable to Hormel Foods Corporation | \$ 202,467 | \$ (6,278) | \$ (7,120) | \$ 189,069 |
| Diluted net earnings per share | \$ 0.75 | \$ (0.02) | \$ (0.03) | \$ 0.70 |

Net sales for the second quarter of fiscal 2011 increased 15.3 percent to \$1.96 billion, versus \$1.70 billion in the second quarter of fiscal 2010. Tonnage increased 7.0 percent to 1.22 billion lbs. for the second quarter compared to 1.14 billion lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2011 increased 13.2 percent to \$3.88 billion from \$3.43 billion in the first six months of fiscal 2010. Tonnage for the first six months of fiscal 2011 increased 5.3 percent to 2.46 billion lbs. compared to 2.34 billion lbs. in 2010. All five reporting segments of the Company again reported sales gains during the second quarter, representing the fifth consecutive quarter of year-over-year increases in every segment. Strong retail and foodservice sales within the Refrigerated Foods segment provided the most significant top-line benefit for the second quarter and first six months, reflecting successful advertising campaigns, increased distribution, and recent pricing initiatives. Jennie-O Turkey Store also reported excellent sales results, with increases in value-added items, commodity meat, and whole birds. Export sales of fresh pork have also been particularly strong in fiscal 2011, and contributed to the improved top-line results.

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Gross profit for the second quarter and first six months of fiscal 2011 was \$326.2 million and \$700.2 million, respectively, compared to \$280.5 million and \$598.9 million for the same periods last year. Gross profit for the second quarter and first six months of fiscal 2010 includes a charge of \$9.7 million incurred in the prior year related to the closing of the Company's Valley Fresh plant. Gross profit as a percentage of net sales for the second quarter increased to 16.7 percent compared to 16.5 percent for the prior year, and increased to 18.0 percent for the first six months of fiscal 2011, from 17.5 percent for the comparable six months of fiscal 2010. Jennie-O Turkey Store (JOTS) again reported the most substantial margin growth over fiscal 2010, generated by value-added sales growth, favorable commodity meat margins, and operational efficiencies. Favorable spreads between hog costs and primal values continued throughout the second quarter, resulting in significant gains for the Company's pork operations compared to the prior year. These gains offset the impact of high raw material costs, which most notably impacted margins in the Grocery Products and Specialty Foods segments. Shipping and handling expenses also increased across all segments of the Company and are expected to remain above prior year levels in upcoming quarters due to elevated fuel costs.

Entering the second half of the fiscal year, the Company expects higher raw material costs to continue to impact margins for its value-added businesses. Additionally, pork operating margins are not expected to be as favorable as in recent quarters. The Company anticipates that they will remain higher than historical levels, but lower than a year ago for the remainder of fiscal 2011. Results for JOTS may also be negatively impacted by rising grain costs that are expected to persist throughout the latter half of the fiscal year. Efforts are being made to offset these costs through improved productivity and pricing, however, there will likely be a lag effect as those initiatives are implemented. The impact of higher pricing on volumes is also a concern and will be monitored accordingly.

Selling, general and administrative expenses for the second quarter and first six months of fiscal 2011 were \$160.1 million and \$305.3 million, respectively, compared to \$146.8 million and \$292.3 million for the same periods last year. Due to robust sales growth, selling, general and administrative expenses as a percentage of net sales decreased to 8.2 percent and 7.9 percent for the second quarter and first six months of fiscal 2011, respectively, compared to 8.6 percent and 8.5 percent in the comparable periods of the prior year. Brokerage expense has increased substantially during the first six months of fiscal 2011, but has been partially offset by reductions in professional service related expenses. For the first six months of fiscal 2011, higher expense was incurred 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. Advertising expenses also increased during the second quarter and first six months of fiscal 2011. Media investments will continue to be a priority for the latter half of fiscal 2011 as the Company continues to support its key brands through the Life Better Served *Hormel* brand campaign and the Make the Switch marketing campaign for JOTS planned for this summer and fall. 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 \$6.7 million and \$13.6 million for the second quarter and first six months of fiscal 2011, respectively, compared to \$4.0 million and \$6.8 million last year. Strong results from the Company's 50 percent owned MegaMex joint venture have been a primary driver of the increase for both the second quarter and first six months. The six month increase also reflects improved performance by the Company's 40 percent owned Philippine joint venture, Purefoods-Hormel Company.

The effective tax rate for the second quarter and first six months of fiscal 2011 was 33.9 and 34.3 percent, respectively, compared to 40.7 and 36.8 percent for the comparable quarter and six months of fiscal 2010. The lower second quarter and six month rates compared to the prior year primarily reflect unfavorable discrete items that occurred in fiscal 2010 that did not reoccur in the current year. Specifically, the higher rates for 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 34.0 and 35.0 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.

| | May 1, 2011 | Three Months Ended April 25, 2010 | % Change | May 1, 2011 | Six Months Ended April 25, 2010 | % Change |
|---|----------------|---|-------------|----------------|---------------------------------------|-------------|
| (in thousands) | | | | | | |
| Net Sales | | | | | | |
| Grocery Products | \$ 260,273 | \$ 256,665 | 1.4 | \$ 537,172 | \$ 518,309 | 3.6 |
| Refrigerated Foods | 1,040,624 | 893,470 | 16.5 | 2,051,326 | 1,785,772 | 14.9 |
| Jennie-O Turkey Store | 365,953 | 292,551 | 25.1 | 730,470 | 612,502 | 19.3 |
| Specialty Foods | 205,001 | 196,934 | 4.1 | 396,346 | 383,876 | 3.2 |
| All Other | 87,190 | 60,162 | 44.9 | 165,285 | 126,770 | 30.4 |
| Total | \$ 1,959,041 | \$ 1,699,782 | 15.3 | \$ 3,880,599 | \$ 3,427,229 | 13.2 |
| Segment Operating Profit | | | | | | |
| Grocery Products | \$ 39,048 | \$ 33,022 | 18.2 | \$ 87,610 | \$ 87,192 | 0.5 |
| Refrigerated Foods | 70,250 | 55,523 | 26.5 | 166,384 | 125,711 | 32.4 |
| Jennie-O Turkey Store | 46,703 | 32,169 | 45.2 | 120,528 | 65,436 | 84.2 |
| Specialty Foods | 19,164 | 21,508 | (10.9) | 36,442 | 41,138 | (11.4) |
| All Other | 8,444 | 4,133 | 104.3 | 18,437 | 11,855 | 55.5 |
| Total segment operating profit | \$ 183,609 | \$ 146,355 | 25.5 | \$ 429,401 | \$ 331,332 | 29.6 |
| Net interest and investment expense (income) | 5,215 | 5,151 | 1.2 | 11,353 | 11,269 | 0.7 |
| General corporate expense | 11,969 | 9,391 | 27.5 | 23,221 | 19,754 | 17.6 |
| Noncontrolling interest | 1,123 | 673 | 66.9 | 2,332 | 1,735 | 34.4 |
| Earnings before income taxes | \$ 167,548 | \$ 132,486 | 26.5 | \$ 397,159 | \$ 302,044 | 31.5 |

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 1.4 percent and 3.6 percent for the second quarter and first six months of fiscal 2011, respectively, compared to the same fiscal 2010 periods. Tonnage increased 1.8 percent for the second quarter and 3.5 percent for the first six months of fiscal 2011 compared to the prior year. Solid sales growth was reported across core product lines during both the second quarter and first six months of fiscal 2011, reflecting both improved volumes and the impact of recent pricing advances. Notable gains were reported for the SPAM family of products, *Dinty Moore* stews, *Hormel Mary Kitchen* hash, and bacon toppings. Increased sales of Mexican food products under the Company's MegaMex joint venture also continued to benefit the top-line results for this segment, resulting from higher volumes and an improved product mix. Offsetting these gains were softer sales of imported canned meats and *Hormel Compleats* microwave meals, as well as costs

associated with the introduction and distribution of the *Compleats* Kids line of microwave meals during the second quarter.

Segment profit for Grocery Products decreased 8.7 percent for the second quarter and 9.6 percent for the first six months of fiscal 2011, compared to adjusted segment profit for the second quarter and six months of fiscal 2010. Adjusted segment profit for fiscal 2010 excludes a non-recurring charge of \$9.7 million related to the closing of

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the Company's Valley Fresh plant incurred during the second quarter of the prior year (see table below). On a U.S. GAAP basis, Grocery Products segment profit increased 18.2 percent and 0.5 percent for the second quarter and first six months of fiscal 2011, respectively, compared to the same periods of fiscal 2010.

The following table shows the calculations to reconcile adjusted segment profit to U.S. GAAP segment profit for Grocery Products for fiscal year 2010.

| (in thousands) | 2010 Adjusted Segment Profit | Valley Fresh Plant Closure | 2010 U.S. GAAP Segment Profit |
|---|---------------------------------------|-------------------------------------|--|
| <u>Grocery Products Segment Profit</u> | | | |
| Second quarter ended April 25, 2010 | \$ 42,755 | \$ (9,733) | \$ 33,022 |
| Six months ended April 25, 2010 | \$ 96,925 | \$ (9,733) | \$ 87,192 |

As anticipated, higher pork and beef raw material costs were experienced throughout the second quarter of fiscal 2011 and negatively impacted margin results across the Grocery Products portfolio. Profitability has been most notably impacted throughout the first half of fiscal 2011 for bacon toppings, the SPAM family of products, *Hormel* chili, and hash and stew items. As indicated above, expenses associated with the distribution of the new kids line of microwave meals also negatively impacted results for *Hormel Compleats*. Equity in earnings results from the MegaMex joint venture increased significantly for both the second quarter and first six months compared to fiscal 2010, and were able to partially offset the increased costs experienced across the other key product lines.

The Company expects that high raw material costs will continue to challenge the Grocery Products segment and pressure margin results throughout the remainder of the fiscal year. Pricing advances taken across the segment's product portfolio have lagged cost increases to date but will be in effect for the remainder of the fiscal year, which should improve profitability in the latter half compared to fiscal 2010.

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 16.5 percent and 14.9 percent for the second quarter and first six months of fiscal 2011, respectively, compared to the same periods of fiscal 2010. Tonnage increased 4.1 percent and 2.9 percent for the second quarter and first six months compared to the prior year. Top-line gains were reported across the segment with the retail and foodservice units, as well as the Affiliated Business Units, reporting double-digit increases for the second quarter compared to fiscal 2010.

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The Meat Products business unit had another successful quarter, with *Hormel* party trays, *Hormel Natural Choice* deli meats, and *Hormel Cure 81* premium hams all gaining retail distribution and posting substantial sales gains over fiscal 2010. Positive contributions from the new *Hormel Country Crock*® side dish business also benefitted sales results, as this product line has now completed its first year of integration. *Country Crock*® remains a registered trademark of the Unilever Group of Companies and is being used under license. The foodservice trade remains challenging, with certain segments gaining momentum while others continue to face economic headwinds. Despite this environment, sales of the Company's branded products remained strong throughout the second quarter, including *Natural Choice* deli meats, *Austin Blues* barbeque products, and *Café H* ethnic meats.

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Segment profit for Refrigerated Foods increased 26.5 percent and 32.4 percent for the second quarter and first six months of fiscal 2011, respectively, compared to the prior year. The Company processed 4.79 million hogs during the first six months of fiscal 2011, increasing from 4.68 million in the prior year. Unusually favorable spreads between hog costs and primal values continued until late in the second quarter of fiscal 2011, which generated significant gains for the Company's pork operations on a year-over-year basis. However, pork primal costs also remained at elevated levels, which pressured margins for this segment's value-added businesses and partially offset the gains achieved in operations. Pricing initiatives implemented during the second quarter across several product lines within Refrigerated Foods were able to help mitigate the impact of the higher input costs.

The strong pork operating margins that have benefitted results since the latter half of fiscal 2010 have returned to more historical levels recently, and are likely to be lower than the prior year throughout the second half of fiscal 2011. Meanwhile, raw material costs remain near all-time highs and the Company anticipates that hog markets will continue to trend higher as we experience warmer weather, strong export demand, and forecasted record corn prices. Pricing initiatives that have been taken to alleviate some of the margin pressure will continue to roll out in the third quarter, and the Company will continue to monitor the impact of these increases on volumes during 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 25.1 percent and 19.3 percent for the second quarter and the first six months of fiscal 2011, respectively, versus the comparable periods of fiscal 2010. Tonnage increased 17.3 percent for the second quarter and 10.7 percent for the first six months of fiscal 2011, compared to fiscal 2010 results. Top-line gains primarily reflect improved value-added sales, up 13.5 percent and 11.3 percent for the second quarter and first six months, respectively, compared to fiscal 2010. Ongoing favorable commodity pricing also drove a substantial increase in commodity meat sales. Sales of whole birds were also up significantly during the second quarter, resulting from successful efforts to sell the product earlier in the year versus carrying the inventory for sales closer to the holiday season.

JOTS has continued to experience excellent profitability to date in fiscal 2011, with segment profit up 45.2 percent for the second quarter and 84.2 percent for the first six months of fiscal 2011, compared to the prior year. Favorable commodity meat margins have generated significant gains for both the second quarter and first six months, resulting from higher commodity meat prices and increased volumes. Increased value-added business, as well as ongoing operational and efficiency gains, have also contributed to the strong profit results. Rising and volatile grain markets experienced throughout the second quarter were partially mitigated by the Company's hedging programs, but will continue to be challenging during the remainder of the fiscal year.

As noted above, JOTS continued the momentum within its value-added businesses during the second quarter, with the retail, deli, and foodservice channels all reporting increased sales results. Notable gains over the prior year were achieved on *Jennie-O Turkey Store* fresh tray pack items, turkey burgers, and turkey bacon. The Company plans to resume its "Make the Switch" marketing campaign for JOTS during the summer and fall, which should continue to enhance sales results for this segment.

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The turkey industry has maintained a good balance during the first half of fiscal 2011, which is expected to continue. Commodity meat prices also remain excellent. However, grain price increases are a concern for the remainder of the fiscal year, as futures markets indicate that costs will be substantially higher than fiscal 2010. The Company's hedging programs and pricing advances will be utilized to offset a portion of these cost increases. Overall the Company expects the latter half of fiscal 2011 to be more difficult for JOTS, particularly in comparison to the extremely strong 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 4.1 percent for the second quarter and 3.2 percent for the first six months of fiscal 2011, respectively, compared to the same periods of fiscal 2010. Tonnage increased 5.6 percent for the second quarter and 6.4 percent for the first six months of fiscal 2011, compared to the prior year. Stronger sales of private label canned meats, and enhanced sales of sugar and blended products, were able to offset softer nutritional jar sales during the quarter.

Specialty Foods segment profit decreased 10.9 percent in the second quarter and 11.4 percent for the first six months of fiscal 2011, compared to fiscal 2010 results. High raw material costs have negatively impacted results throughout fiscal 2011 for both HSP and DCB. Pricing advances were implemented across several product categories during the second quarter, but have lagged the input cost increases and have been unable to fully offset the impact on profit results. Changes in product mix at CFI, including decreased nutritional jar sales and a larger percentage of volume from toll-based contract manufacturing business, have also resulted in profit declines for this segment.

Specialty Foods expects to be challenged by continued high raw materials costs in the latter half of fiscal 2011. Additional pricing advances are planned on certain items most impacted by the rising costs. The Company continues to pursue opportunities to expand distribution and gain new business for this segment, and expects improvement in upcoming 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 44.9 percent and 30.4 percent for the second quarter and first six months of fiscal 2011, respectively, as compared to fiscal 2010. Strong export sales of fresh pork and the *SPAM* family of products through HFI were the principal drivers of the strong top-line results, reflecting new items and increased global demand. Segment profit increased 104.3 percent for the second quarter and 55.5 percent for the first six months of fiscal 2011, respectively, compared to prior year results. Pork margins were favorable entering 2011 and continued to provide a substantial benefit throughout the second quarter. The robust export sales, higher royalties, favorable currency rates, and improved results from the Company's China operations also contributed to the profit results. These gains were able to offset higher input costs and declining results for our international joint venture operations.

Pork exports are expected to remain strong during the remainder of the fiscal year, which should continue to drive positive results for this segment on a year-over-year basis. Costs are also anticipated to run higher, but will be tempered by the ongoing sales momentum and pricing initiatives implemented in the second quarter.

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.

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Net interest and investment expense (income) for the second quarter and first six months of fiscal 2011 represented a net expense of \$5.2 million and \$11.4 million, respectively, comparable to a net expense of \$5.2 million and \$11.3 million for the second quarter and first six 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 during fiscal 2011 to date. Interest expense of \$13.8 million for the first six months of fiscal 2011 increased slightly from \$13.1 million in the prior year as the Company issued \$250.0 million of 4.125% Notes during the second quarter of fiscal 2011. The Company's prior long-term debt balance of \$350.0 million will be repaid in the third quarter. Therefore, the Company anticipates that interest expense will approximate \$22.0 to \$23.0 million for fiscal 2011, which is below fiscal 2010 levels due to a lower overall long-term debt balance and interest rate for the remainder of the fiscal year.

General corporate expense for the second quarter and first six months of fiscal 2011 was \$12.0 million and \$23.2 million, respectively, compared to \$9.4 million and \$19.8 million for the comparable periods of fiscal 2010. Increased expense for the second quarter primarily represents higher pension and insurance costs compared to the prior year. For the six months, higher expense was also incurred 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 \$1.1 million and \$2.3 million for the second quarter and six months of fiscal 2011, respectively, compared to \$0.7 million and \$1.7 million for the comparable periods of fiscal 2010. The increases for fiscal 2011 primarily reflect improved performance from the Company's Precept Foods business.

Related Party Transactions

There has been no material change in the information regarding Related Party Transactions that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$913.7 million at the end of the second quarter of fiscal year 2011 compared to \$355.2 million at the end of the comparable fiscal 2010 period.

Cash provided by operating activities was \$275.9 million in the first six months of fiscal 2011 compared to \$179.3 million in the same period of fiscal 2010. Increased earnings in fiscal 2011 have significantly improved operating cash flows compared to the prior year. Additionally, favorable overall changes in working capital balances compared to fiscal 2010 and a \$4.0 million dividend received from the Company's Philippine joint venture have also contributed to the increase.

Cash used in investing activities decreased to \$32.5 million in the first six months of fiscal 2011 from \$147.0 million in the comparable period of fiscal 2010. Fiscal 2010 included a \$50.0 million investment in marketable securities during the second quarter, compared to an inflow of \$5.0 million in the current year related to the sale of certain trading securities. 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 six months of fiscal 2011 have declined to \$35.9 million from \$40.1 million in the comparable period of fiscal 2010. The Company currently estimates its fiscal 2011 fixed asset expenditures to be approximately \$100.0 to \$110.0 million.

Cash provided by financing activities was \$202.4 million in the first six months of fiscal 2011 compared to cash used in financing activities of \$62.4 million in the same period of fiscal 2010. On April 11, 2011, the Company issued \$250.0 million of 4.125% Notes due in 2021. This issuance partially replaces the Company's prior long-term debt balance of \$350.0 million, which was reclassified to current maturities during fiscal 2010, and will be repaid during the third quarter of fiscal 2011. The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and financial position. At the end of the second quarter of fiscal 2011, the Company was in compliance with all of these debt covenants.

The Company used \$34.7 million for common stock repurchases in the first six months of fiscal 2011, compared to \$29.8 million in the same period of the prior year. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2

Unregistered Sales of Equity Securities and Use of Proceeds. The outflows related to share repurchases were more than offset by additional financing cash flows of approximately \$33.5 million generated from the Company's stock option plans in fiscal 2011, 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 six months of 2011 were \$61.9 million compared to \$53.4 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 331 consecutive quarters 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.

The Company will repay \$350.0 million of its senior unsecured notes that mature on June 1, 2011. Other priorities for uses of cash remain investing in the business and returning value to shareholders. The Company has a lengthy history of dividend increases and consistent share repurchase activity. Capital spending to enhance existing operations is ongoing, and strategic acquisitions to complement current product portfolios are continually being evaluated as an option to utilize the Company's strong cash balance.

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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 May 1, 2011, was \$43.0 million.

There have been no other material changes to the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 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 six 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 May 1, 2011, was \$(8.1) 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 May 1, 2011, open contracts by \$13.5 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 \$42.0 million, before tax, on the Consolidated Statement of Financial Position as of May 1, 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 May 1, 2011, open grain contracts by \$11.7 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 \$2.2 million, before tax, on the Consolidated Statement of Financial Position as of May 1, 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 May 1, 2011, open natural gas contracts by \$0.6 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 \$8.4 million. The fair value of the Company's long-term debt (including current maturities) was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

Investments: The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, and as part of an investment portfolio. As of May 1, 2011, the balance of these securities totaled \$157.0 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 \$8.7 million, while a 10 percent increase in value would have a positive impact of the same amount.

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

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

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

(b) Internal Controls.

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

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

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

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

- The financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for the Company or non-performance by suppliers; 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 19,200 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 fiscal 2011, covering a combined total of approximately 3,300 employees. Negotiations at these facilities are expected to begin in the third quarter.

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

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs¹ | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs¹ |
|----------------------------------|---|-------------------------------------|---|---|
| January 31, 2011 – March 6, 2011 | 184,800 | \$ 25.39 | 184,800 | 8,104,200 |
| March 7, 2011 – April 3, 2011 | 300,000 | 27.56 | 300,000 | 7,804,200 |
| April 4, 2011 – May 1, 2011 | 285,000 | 28.17 | 285,000 | 7,519,200 |
| Total | 769,800 | \$ 27.26 | 769,800 | |

¹On 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

- 3.1 Restated Certificate of Incorporation, as amended February 1, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 30, 2011, filed on March 3, 2011, File No. 001-02402).
- 3.2 Bylaws as amended to date (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 24, 2010, filed on March 5, 2010, File No. 001-02402).
- 4.1 Indenture dated as of April 1, 2011 between the Company and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the Company's registration statement on Form S-3 filed on April 4, 2011, File No. 333-173284).
- 4.2 Form of 4.125% Notes due 2021 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 11, 2011, File No. 001-02402).
- 10.1 Underwriting Agreement, dated as of April 4, 2011, by and between the Company and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner, & Smith Incorporated as representatives of the several underwriters named in Schedule 1 thereto (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on April 11, 2011, File No. 001-02402).
- 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: June 10, 2011

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

Date: June 10, 2011

By /s/ JAMES N. SHEEHAN
JAMES N. SHEEHAN
Vice President and Controller
(Principal Accounting Officer)