Sara Lee Corp
Form 10-Q
May 06, 2010
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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 MARCH 27, 2010

OR

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

Commission file number 1-3344

Sara Lee Corporation

(Exact name of registrant as specified in its charter)

Maryland	**36-2089049**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3500 Lacey Road, Downers Grove, Illinois 60515

(Address of principal executive offices)

(Zip Code)

(630) 598-6000

(Registrant s telephone number, including area code)

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 x 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 x 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 accelerated filer, large accelerated filer, smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	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 x

On March 27, 2010, the Registrant had 661,269,828 outstanding shares of common stock $.01 par value, which is the Registrant s only class of common stock.

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SARA LEE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets at March 27, 2010 and June 27, 2009

(Unaudited)

In millions	March 27, 2010	June 27, 2009
Assets		
Cash and equivalents	$ 935	$ 951
Trade accounts receivable, less allowances	1,251	1,272
Inventories		
Finished goods	429	443
Work in process	29	32
Materials and supplies	337	291
	795	766
Current deferred income taxes	162	213
Other current assets	339	250
Assets held for sale	378	378
Total current assets	3,860	3,830
Property, net of accumulated depreciation of $2,865 and $2,776, respectively	2,086	2,200
Trademarks and other identifiable intangibles, net	535	585
Goodwill	1,286	1,295
Deferred income taxes	218	298
Other noncurrent assets	229	245
Noncurrent assets held for sale	930	964
	$ 9,144	$ 9,417
Liabilities and Equity		
Notes payable	$ 36	$ 20
Accounts payable	893	1,004
Income taxes payable and current deferred taxes	11	22
Other accrued liabilities	1,336	1,467
Current maturities of long-term debt	16	46
Liabilities held for sale	304	287
Total current liabilities	2,596	2,846
Long-term debt	2,718	2,738
Pension obligation	529	595
Deferred income taxes	572	106
Other liabilities	926	1,061
Noncurrent liabilities held for sale	13	13
Equity		
Sara Lee common stockholders equity	1,757	2,036
Noncontrolling interest	33	22
Total Equity	1,790	2,058

	$ 9,144	$ 9,417

See accompanying Notes to Consolidated Financial Statements.

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SARA LEE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

For the Quarter and Nine Months ended March 27, 2010 and March 28, 2009

(Unaudited)

In millions, except per share data	Quarter ended March 27, 2010	Quarter ended March 28, 2009	Nine Months ended March 27, 2010	Nine Months ended March 28, 2009
Continuing Operations				
Net sales	$ 2,578	$ 2,575	$ 8,024	$ 8,225
Cost of sales	1,563	1,643	4,935	5,347
Selling, general and administrative expenses	762	714	2,317	2,384
Net charges for exit activities, asset and business dispositions	25	11	53	41
Impairment charges			17	107
Contingent sale proceeds			(133)	(150)
Interest expense	37	45	110	131
Interest income	(7)	(10)	(19)	(35)
	2,380	2,403	7,280	7,825
Income from continuing operations before income taxes	198	172	744	400
Income tax expense	173	39	224	116
Income from continuing operations	25	133	520	284
Discontinued operations				
Net income (loss) from discontinued operations attributable to Sara Lee, net of tax expense of $442, $24, $404 and $60	(367)	32	(207)	94
Net income from noncontrolling interests, net of tax	5	3	12	10
Gain on sale of discontinued operations, net of tax expense of $2, nil, $2, and nil	6		6	
Net income (loss)	(331)	168	331	388
Less: Net income from noncontrolling interests	5	3	12	10
Net income (loss) attributable to Sara Lee	$ (336)	$ 165	$ 319	$ 378
Income from continuing operations per share of common stock				
Basic	$ 0.04	$ 0.19	$ 0.75	$ 0.40
Diluted	$ 0.04	$ 0.19	$ 0.75	$ 0.40
Net income (loss) attributable to Sara Lee per share of common stock				
Basic	$ (0.49)	$ 0.24	$ 0.46	$ 0.54
Diluted	$ (0.49)	$ 0.24	$ 0.46	$ 0.54
Average shares outstanding				
Basic	691	697	695	703

Diluted	693	698	697	704
Cash dividends declared per share of common stock	$ 0.11	$ 0.11	$ 0.22	$ 0.22

See accompanying Notes to Consolidated Financial Statements.

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SARA LEE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Equity

For the period June 28, 2008 to March 27, 2010

(Unaudited)

		Sara Lee Common Stockholders Equity					
In millions	Total	Common Stock	Capital Surplus	Retained Earnings	Unearned Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balances at June 28, 2008	$ 2,830	$ 7	$ 7	$ 2,760	$ (112)	$ 149	$ 19
Net income	375			364			11
Translation adjustments, net of tax	(563)					(561)	(2)
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax	(30)					(30)	
Pension/Postretirement activity, net of tax	(164)					(164)	
Other comprehensive income activity, net of tax	(4)					(2)	(2)
Comprehensive income (loss)	$ (386)						7
Dividends on common stock	(310)			(310)			
Dividends paid on noncontrolling interest/Other	(4)						(4)
Stock issuances							
Stock option and benefit plans	4		4				
Restricted stock	29		29				
Share repurchases and retirement	(103)		(25)	(78)			
Pension/Postretirement adjustment to change in measurement date, net of tax	(13)			(16)		3	
ESOP tax benefit, redemptions and other	11		2	1	8		
Balances at June 27, 2009	2,058	7	17	2,721	(104)	(605)	22
Net income	331			319			12
Translation adjustments, net of tax	(5)					(7)	2
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax	4					4	
Pension/Postretirement activity, net of tax	27					27	
Comprehensive income	$ 357						14
Dividends on common stock	(156)			(156)			
Dividends paid on noncontrolling interest	(3)						(3)
Stock issuances							
Stock option and benefit plans	6		6				
Restricted stock	23		23				
Share repurchases and retirement	(500)		(47)	(453)			
ESOP tax benefit, redemptions and other	5		1		4		
Balances at March 27, 2010	$ 1,790	$ 7	$	$ 2,431	$ (100)	$ (581)	$ 33

Total comprehensive loss was $432 million in the first nine months of 2009, of which $434 million was attributable to Sara Lee. The comprehensive income attributable to Sara Lee in the first nine months of 2010 was $343 million.

See accompanying Notes to Consolidated Financial Statements.

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SARA LEE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Nine Months ended March 27, 2010 and March 28, 2009

(Unaudited)

In millions	Nine Months ended March 27, 2010	Nine Months ended March 28, 2009
OPERATING ACTIVITIES		
Net income	$ 331	$ 388
Less: Cash received from contingent sale proceeds	(133)	(150)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	265	284
Amortization	80	86
Impairment charges	17	107
Net (gain) loss on business dispositions	13	(2)
Pension contributions, net of expense	(2)	(179)
Increase in deferred income taxes for unremitted earnings	518	
Other	(64)	7
Changes in current assets and liabilities, net of businesses acquired and sold	(218)	(238)
Net cash from operating activities	807	303
INVESTMENT ACTIVITIES		
Purchases of property and equipment	(215)	(216)
Purchases of software and other intangibles	(11)	(20)
Acquisitions of businesses and investments		(10)
Dispositions of businesses and investments	6	55
Cash received from contingent sale proceeds	133	150
Cash received from (used in) derivative transactions	61	(140)
Sales of assets	13	8
Net cash used in investment activities	(13)	(173)
FINANCING ACTIVITIES		
Issuances of common stock	2	1
Purchases of common stock	(500)	(103)
Borrowings of other debt	45	389
Repayments of other debt	(73)	(340)
Net change in financing with less than 90-day maturities	(3)	(250)
Payments of dividends	(232)	(226)
Net cash used in financing activities	(761)	(529)
Effect of changes in foreign exchange rates on cash	(20)	(220)
Increase (decrease) in cash and equivalents	13	(619)
Add: Cash balances of discontinued operations at beginning of year	8	2
Less: Cash balances of discontinued operations at end of period	(37)	(15)
Cash and equivalents at beginning of year	951	1,282

Cash and equivalents at end of quarter	$ 935	$ 650

COMPONENTS OF CHANGES IN CURRENT ASSETS AND LIABILITIES		
Trade accounts receivable	$ 14	$ 11
Inventories	(9)	(71)
Other current assets	37	7
Accounts payable	(27)	(204)
Accrued liabilities	(103)	20
Accrued taxes	(130)	(1)
Changes in current assets and liabilities, net of businesses acquired and sold	$ (218)	$ (238)

See accompanying Notes to Consolidated Financial Statements.

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SARA LEE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements for the quarter and nine months ended March 27, 2010 and March 28, 2009 have not been audited by an independent registered public accounting firm, but in the opinion of Sara Lee Corporation (corporation or company), these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position, operating results, and cash flows. The results of operations for the nine months ended March 27, 2010 are not necessarily indicative of the operating results to be expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of June 27, 2009 has been derived from the corporation s audited financial statements included in our Annual Report on Form 10-K for the year ended June 27, 2009. The businesses comprising the former International Household and Body Care segment are presented as discontinued operations in the corporation s consolidated financial statements. See Note 4 Discontinued Operations for additional information regarding these discontinued operations. Unless stated otherwise, any reference to income statement items in these financial statements refers to results from continuing operations.

The interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Although the corporation believes the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the corporation s Form 10-K for the year ended June 27, 2009 and other financial information filed with the Securities and Exchange Commission. These financial statements consider subsequent events through the date of filing with the Securities and Exchange Commission.

The corporation s fiscal year ends on the Saturday closest to June 30. Fiscal 2010 ends on July 3, 2010. The third quarter and first nine months of fiscal 2010 ended on March 27, 2010 and the third quarter and first nine months of fiscal 2009 ended on March 28, 2009. Each of the quarters was a thirteen-week period and each of the nine month periods was a thirty-nine week period. Fiscal 2010 is a 53-week year, whereas fiscal 2009 was a 52-week year. Unless otherwise stated, references to years relate to fiscal years.

In 2010, the corporation retrospectively adopted new accounting guidance related to noncontrolling interests in consolidated financial statements. This guidance requires the classification of noncontrolling interests in subsidiaries, formerly referred to as minority interest, as a separate component of equity and the changes in ownership interest must be accounted for as equity transactions. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. As a result, the Condensed Consolidated Balance Sheets, Consolidated Statements of Income, Condensed Consolidated Statements of Equity and Consolidated Statements of Cash Flows present the impact of noncontrolling interests on equity, net income and comprehensive income. Net income now includes earnings attributable to both Sara Lee and noncontrolling interests.

In 2010, the corporation adopted new accounting guidance related to business combinations, which requires changes in the accounting and reporting of business acquisitions. This guidance requires an acquirer to recognize and measure the identifiable assets acquired, liabilities assumed, contractual contingencies, contingent consideration and any noncontrolling interest in an acquired business at fair value on the acquisition date. In addition, it also requires that acquisition costs generally be expensed when incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date and any adjustments to deferred tax asset valuation allowances and acquired uncertain tax positions after the measurement period to be reflected in income tax expense. The adoption of this guidance has not impacted the consolidated financial statements.

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2. Net Income (Loss) Per Share

The computation of net income (loss) per share only includes results attributable to Sara Lee and does not include earnings related to noncontrolling interests. Net income per share basic is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Net income per share diluted reflects the potential dilution that could occur if options or fixed awards to be issued under stock-based compensation awards were converted into common stock. For the quarter and nine months ended March 27, 2010, options to purchase 21.4 million shares and 21.9 million shares, respectively, of the corporation s common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. For the quarter and nine months ended March 28, 2009, options to purchase 28.3 million shares of the corporation s common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. These shares are excluded from the earnings per share calculation as they are anti-dilutive.

The average shares outstanding declined in the third quarter and first nine months of 2010 as compared to the third quarter and first nine months of 2009 as a result of shares repurchased under the corporation s ongoing share repurchase program. The corporation repurchases common stock at times management deems appropriate, given current market valuations. Sara Lee announced on September 25, 2009 that its Board of Directors had authorized a $1.0 billion share repurchase program and on February 16, 2010 that its Board of Directors had increased this repurchase program by $2.0 billion shares (for a total authorization of $3.0 billion shares). In March of 2010, the corporation repurchased 36.4 million shares at a cost of $500 million under this program using an accelerated share repurchase program. During 2009, the corporation also repurchased 11.4 million shares of common stock, all of which were repurchased during the second quarter. As of March 27, 2010, the corporation was authorized to repurchase $2.5 billion of common stock under its existing share repurchase program, plus 13.5 million shares of common stock that remain authorized for repurchase under the corporation s prior share repurchase program. The timing and amount of future share repurchases will be based upon the completion of the corporation s sale of its household and body care businesses, market conditions and other factors.

The following is a reconciliation of net income to net income per share basic and diluted for the third quarter and first nine months of 2010 and 2009 (per share amounts are rounded and may not add to total):

Computation of Net Income (Loss) per Common Share

(In millions, except per share data)

	Quarter ended		Nine Months ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Income from continuing operations	$ 25	$ 133	$ 520	$ 284
Income (loss) from discontinued operations attributable to Sara Lee, net of tax	(361)	32	(201)	94
Net income (loss) attributable to Sara Lee	$ (336)	$ 165	$ 319	$ 378
Average shares outstanding basic	691	697	695	703
Dilutive effect of stock option and award plans	2	1	2	1
Diluted shares outstanding	693	698	697	704
Income from continuing operations per share				
Basic	$ 0.04	$ 0.19	$ 0.75	$ 0.40
Diluted	$ 0.04	$ 0.19	$ 0.75	$ 0.40
Income (loss) from discontinued operations per share				
Basic	$ (0.52)	$ 0.05	$ (0.29)	$ 0.13
Diluted	$ (0.52)	$ 0.05	$ (0.29)	$ 0.13

Net income (loss) per share				
Basic	$ (0.49)	$ 0.24	$ 0.46	$ 0.54
Diluted	$ (0.49)	$ 0.24	$ 0.46	$ 0.54

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3. Segment Information

The following is a general description of the corporation s five business segments:

North American Retail sells a variety of packaged meat and frozen bakery products to retail customers in North America and includes the corporation s U.S. *Senseo* retail coffee business.

North American Fresh Bakery sells a variety of fresh bakery products to retail customers in North America.

North American Foodservice sells a variety of meat, bakery, and beverage products to foodservice customers in North America.

International Beverage sells coffee and tea products in major markets around the world, including Europe, Australia and Brazil.

International Bakery sells a variety of bakery and dough products to retail and foodservice customers in Europe and Australia.

The results of the businesses comprising the corporation s former International Household and Body Care segment are now being reported as discontinued operations for all periods presented. See Note 4 Discontinued Operations for additional information regarding these discontinued operations.

The corporation incurs various information technology (IT) and human resource (HR) costs related to its business segments. The IT costs include amortization of software used directly by the business segments, intranet website management costs, systems support, maintenance and project costs. The HR costs include benefits administration, organizational development, labor relations and recruiting costs incurred by the corporate human resource function on behalf of the business segments. Prior to 2010, these costs were included in Other general corporate expenses. Beginning in 2010, the corporation now includes these IT and HR costs in the operating results of the business segments. The reason for this change is that the integration of our operations over the past several years has resulted in more centralized services, which in many cases are conducted directly for the benefit of the business segments. Management believes these costs should be reflected in operating segment income in order to provide better information regarding the actual results of the business segment. Business segment information for 2009 has been revised to be consistent with the new basis of presentation.

The following is a summary of net sales and operating segment income by business segment for the third quarter and first nine months of 2010 and 2009.

	Net Sales			
(In millions)	**Third Quarter 2010**	**Third Quarter 2009**	**Nine Months 2010**	**Nine Months 2009**
North American Retail	$ 672	$ 646	$ 2,076	$ 2,072
North American Fresh Bakery	501	530	1,541	1,640
North American Foodservice	427	487	1,413	1,638
International Beverage	799	741	2,417	2,295
International Bakery	186	179	601	607
Total business segments	2,585	2,583	8,048	8,252
Intersegment sales	(7)	(8)	(24)	(27)
Net sales	$ 2,578	$ 2,575	$ 8,024	$ 8,225

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(In millions)	Income from Continuing Operations Before Income Taxes Third Quarter 2010	Third Quarter 2009	Nine Months 2010	Nine Months 2009
North American Retail	$ 101	$ 64	$ 303	$ 192
North American Fresh Bakery	6	2	36	3
North American Foodservice	26	25	109	2
International Beverage	173	131	468	381
International Bakery	(1)	11	4	7
Total operating segment income	305	233	920	585
Amortization of intangibles	(12)	(12)	(35)	(35)
General corporate expenses:				
Other	(58)	(33)	(177)	(165)
Mark-to-market derivative gains/(losses)	(7)	19	(6)	(39)
Contingent sale proceeds			133	150
Operating income	228	207	835	496
Net interest expense	(30)	(35)	(91)	(96)
Income from continuing operations before income taxes	$ 198	$ 172	$ 744	$ 400

In 2010, the corporation is now presenting certain segment assets, principally consisting of cash, in corporate assets for all periods since these assets are primarily controlled by the corporate group. A summary of segment assets as of March 27, 2010 and June 27, 2009 is as follows:

	March 27, 2010	June 27, 2009
Assets		
North American Retail	$ 1,261	$ 1,266
North American Fresh Bakery	1,116	1,140
North American Foodservice	1,074	1,134
International Beverage	1,929	1,932
International Bakery	673	719
	6,053	6,191
Net assets held for sale	1,308	1,342
Other corporate assets (a)	1,783	1,884
Total assets	$ 9,144	$ 9,417

(a) Principally cash and cash equivalents, certain corporate fixed assets, deferred tax assets and certain other noncurrent assets.

4. Discontinued Operations

In September 2009, the corporation announced that it had received a binding offer for the sale of its global body care and European detergents businesses for 1.275 billion euros. In December 2009, the corporation also announced that it received a binding offer for the sale of its air care business for 320 million euros. These proposed transactions are subject to certain customary closing conditions and regulatory approvals and are anticipated to close during calendar 2010. Together these businesses represent approximately 70% of the net sales of the international household and body care businesses. The corporation is also actively marketing for sale its remaining household and body care businesses and, as a result, the businesses that formerly comprised the International Household and Body Care segment air care, body care, shoe care and insecticides are classified as discontinued operations and are presented in a separate line in the Consolidated Statements of Income for all periods presented. The assets and liabilities of these businesses to be sold meet the accounting criteria to be classified as held for sale and have been aggregated and reported on separate lines of the Condensed Consolidated Balance Sheets for all periods presented.

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The following is a summary of the operating results of the corporation s discontinued operations:

	Third Quarter 2010			Third Quarter 2009		
(In millions)	Net Sales	Pretax Income(1)	Net Loss(1)	Net Sales	Pretax Income(1)	Net Income(1)
International Household and Body Care businesses	$ 525	$ 75	$ (367)	$ 454	$ 56	$ 32

	First Nine Months 2010			First Nine Months 2009		
(In millions)	Net Sales	Pretax Income(1)	Net Loss(1)	Net Sales	Pretax Income(1)	Net Income(1)
International Household and Body Care businesses	$ 1,611	$ 197	$ (207)	$ 1,493	$ 154	$ 94

(1) Represents amounts attributable to Sara Lee.

The $404 million tax expense reported in the first nine months of 2010 includes the following significant tax amounts: (i) a $416 million tax charge related to the company s third quarter decision to no longer reinvest overseas earnings attributable to overseas cash and the net assets of the household and body care businesses; (ii) a $53 million tax benefit related to the reversal of a tax valuation allowance on United Kingdom net operating loss carryforwards as a result of the anticipated gain from the household and body care business disposition; and (iii) a $27 million tax benefit related to the anticipated utilization of U.S. capital loss carryforwards available to offset the capital gain resulting from the household and body care business disposition.

The following is a summary of the net assets held for sale as of March 27, 2010 and June 27, 2009, which consists of the net assets of the international household and body care businesses.

(In millions)	March 27, 2010	June 27, 2009
Cash and cash equivalents	$ 37	$ 8
Trade accounts receivable	56	61
Inventories	241	262
Other current assets	44	47
Total current assets held for sale	378	378
Property	152	156
Trademarks and other intangibles	203	221
Goodwill	561	568
Other assets	14	19
Assets held for sale	$ 1,308	$ 1,342
Notes payable	$ 1	$
Accounts payable	47	49
Accrued expenses and other current liabilities	250	229
Current maturities of long-term debt	6	9
Total current liabilities held for sale	304	287
Long-term debt	3	7
Other liabilities	10	6

Liabilities held for sale	$ 317	$ 300
Noncontrolling interest	$ 33	$ 22

Certain tax related revisions have been made to the June 27, 2009 balance sheet presented at the end of our 2010 second quarter to reflect the deal structure associated with the binding offers announced for the household and body care businesses. The most significant change relates to $51 million of long-term deferred tax liabilities which have been reclassified into continuing operations as those tax attributes will remain with the continuing operations.

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The discontinued operations cash flows are summarized in the table below:

(In millions) Increase / (Decrease)	Nine Months ended Mar. 27, 2010	Nine Months ended Mar. 28, 2009
Cash flow from operating activities	$ 231	$ 153
Cash flow used in investing activities	(2)	(14)
Cash flow used in financing activities	(200)	(126)
Increase in net cash of discontinued operations	29	13
Cash and cash equivalents at beginning of year	8	2
Cash and cash equivalents at end of period	$ 37	$ 15

The cash used in financing operations primarily represents the net transfers of cash with the corporate office. The net assets of the discontinued operations includes only the cash noted above as most of the cash of those businesses has been retained as a corporate asset.

5. Impairment Review and Goodwill

The corporation tests goodwill for impairments in the second quarter of each fiscal year and whenever a significant event occurs or circumstances change that would more likely than not reduce the fair value of these intangible assets.

As a result of the review performed in the second quarter of 2010, the corporation determined that no goodwill impairment was required to be recognized as the carrying amounts of the reporting units did not exceed their fair values. The change in the goodwill balance from June 27, 2009 is due to the impact of changes in foreign currency exchange rates on foreign denominated goodwill. In the second quarter of 2009, a $107 million goodwill impairment charge was recognized in the foodservice beverage reporting unit after it was determined the carrying value of assets exceeded their fair value. The foodservice beverage reporting unit had experienced a significant decline in profitability due to a highly competitive marketplace and difficult economic conditions which led to the impairment charge. The impairment charge recognized equaled the entire remaining amount of goodwill in the foodservice beverage reporting unit and no tax benefit was recognized on the charge. The corporation intends to move the testing for impairments to the fourth quarter of each fiscal year in order to better align the impairment review with the company s long-range planning process.

In the first nine months of 2010, the corporation recognized a $17 million impairment charge related to fixed assets. Thirteen million related to the writedown of manufacturing equipment associated with the North American foodservice bakery reporting unit due to the loss of a customer contract. The remaining $4 million related to the writedown of bakery equipment associated with the Spanish bakery reporting unit.

For the 2010 goodwill impairment test, the fair value of the reporting units was estimated based on a weighting of two models a discounted cash flow model and a market multiple model. The discounted cash flow model uses management s business plans and projections as the basis for expected future cash flows for the first ten years and a 2% residual growth rate thereafter. A separate discount rate derived from published sources was utilized for each reporting unit and, on a weighted average basis, the discount rate used was 9.3%. The market multiple approach employs market multiples of revenues or earnings for companies comparable to the corporation s reporting units. Management believes the assumptions used for the impairment test are consistent with those utilized by a market participant performing similar valuations for our reporting units.

The majority of goodwill impairments recognized by the corporation in the past several years relate to goodwill attributable to the Earthgrains bakery acquisition in 2002. Three reporting units that continue to carry significant Earthgrains goodwill balances at March 27, 2010 include North American foodservice bakery with $476 million, North American fresh bakery with $270 million and international bakery France with $172 million. Although the corporation currently believes the operations support the value of goodwill reported, these entities are the most sensitive to changes in inherent assumptions and estimates used in determining fair value. These three reporting units represent approximately 74% of goodwill remaining in continuing operations. Holding all other assumptions constant at the test date for both models, a 100

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basis point increase in the discount rate used for these three reporting units would reduce the enterprise value approximately 10% indicating no potential impairment. These three reporting units have estimated fair values in excess of net asset carrying values in the range of 21% to 33% as of the test date.

6. Exit, Disposal and Transformation/Accelerate Activities

As part of its ongoing efforts to improve its operational performance and reduce costs, the corporation initiated Project Accelerate (Accelerate) in 2009, which is a series of global initiatives designed to drive significant savings in the next three years. It is anticipated that the overall cost of the initiatives will include severance costs as well as transition costs associated with transferring services to an outside third party. An important component of Accelerate involves outsourcing pieces of the North American and European Finance (transaction processing) and Global Information Services (applications development and maintenance) groups as well as the company s global indirect procurement activities. In addition to cost savings, this business process outsourcing will help the corporation drive standardization, increase efficiency and provide flexibility. The corporation began implementation of the initiative in North America and Europe in the second quarter of 2009 and plans to complete global implementation within three years.

The company announced a transformation plan in February 2005 designed to improve performance and better position the company for long-term growth. The plan involved significant changes in the company s organizational structure, portfolio changes involving the disposition of a significant portion of the corporation s business, and a number of actions to improve operational efficiency. The corporation continues to recognize certain trailing costs related to these transformation actions, including the impact of certain activities that were completed for amounts more favorable than previously estimated.

The nature of the costs incurred under these plans includes the following:

1) Exit Activities, Asset and Business Disposition Actions These amounts primarily relate to:

- Employee termination costs
- Lease exit costs
- Gains or losses on the disposition of assets or asset groupings that do not qualify as discontinued operations

2) Transformation/Accelerate Costs recognized in Cost of sales and Selling, general and administrative expenses primarily relate to:

- Expenses associated with the installation of new information systems
- Costs to retain and relocate employees
- Consulting costs
- Costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative

Transformation/Accelerate costs are recognized in Cost of sales or Selling, general and administrative expenses in the Consolidated Statements of Income as they do not qualify for treatment as an exit activity or asset and business disposition under the accounting rules for exit and disposal activities. However, management believes the disclosure of these transformation/Accelerate related charges provides the reader greater transparency to the total cost of the initiatives.

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The following is a summary of the (income) expense associated with new and ongoing actions, which also highlights where the costs are reflected in the Consolidated Statements of Income along with the impact on diluted EPS:

(In millions)	Quarter ended March 27, 2010	Quarter ended March 28, 2009	Nine Months ended March 27, 2010	Nine Months ended March 28, 2009
Cost of sales:				
Accelerate charges other	$ 1	$	$ 1	$
Selling, general and administrative expenses:				
Transformation/Accelerate charges IT and other	12	6	22	11
Net charges for (income from):				
Exit activities	14	11	33	44
Asset and business dispositions	11		20	(3)
Decrease in income from continuing operations before income taxes	38	17	76	52
Income tax benefit (at applicable statutory rates)	(12)	(4)	(25)	(13)
Decrease in income from continuing operations	$ 26	$ 13	$ 51	$ 39
Impact on diluted EPS	$ 0.03	$ 0.02	$ 0.07	$ 0.06

The impact of these actions on the corporation s business segments and general corporate expenses is summarized as follows:

(In millions)	Quarter ended March 27, 2010	Quarter ended March 28, 2009	Nine Months ended March 27, 2010	Nine Months ended March 28, 2009
North American Retail	$	$	$ 3	$ (1)
North American Fresh Bakery	2		3	
North American Foodservice	8	2	10	(2)
International Beverage	4	5	4	8
International Bakery	10	1	26	30
Decrease in operating segment income	24	8	46	35
Increase in general corporate expenses	14	9	30	17
Total	$ 38	$ 17	$ 76	$ 52

The following discussion provides information concerning the exit, disposal and transformation/Accelerate activities for each year where actions were initiated and material reserves exist.

2010 Actions

During 2010, the corporation approved certain actions related to exit, disposal, and Accelerate activities and recognized charges of $82 million related to these actions. Each of these activities is to be completed within a 12-month period after being approved and include the following:

Recognized a charge to implement a plan to terminate 814 employees, related to both European and North American operations, and provide them with severance benefits in accordance with benefit plans previously communicated to the affected employee group or with local employment laws. Of the 814 targeted employees, 484 employees have not yet been terminated, but are expected to be terminated within the next 12 months.

Recognized costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative.

Recognized a $20 million net loss associated with the disposition of certain bakery manufacturing facilities in Spain.

The following table summarizes the net charges taken for the exit, disposal and Accelerate activities approved during 2010 and the related status as of March 27, 2010. The accrued amounts remaining represent those cash expenditures necessary to satisfy remaining obligations. The majority of the cash payments to satisfy the accrued costs are expected to be paid in the next 12 months. The composition of these charges and the remaining accruals are summarized below. Approximately $30 million of additional charges are expected to be recognized in the remainder of 2010.

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(In millions)	Employee termination and other benefits	Accelerate costs IT and other	Non-cancellable Leases	Asset and Business Disposition Actions	Total
Exit, disposal and other costs recognized during 2010	$ 31	$ 24	$ 7	$ 20	$ 82
Cash payments	(7)	(15)	(2)		(24)
Non-cash charges		(2)			(2)
Foreign exchange impacts	(1)				(1)
Asset and business disposition losses				(20)	(20)
Accrued costs as of March 27, 2010	$ 23	$ 7	$ 5	$	$ 35

2009 Actions

During 2009, the corporation approved certain actions related to exit, disposal, transformation and Accelerate activities and recognized cumulative charges of $125 million related to these actions. Each of these activities is to be completed within a 12-month period after being approved and include the following:

Recognized a charge to implement a plan to terminate 1,006 employees, related to both European and North American operations, and provide them with severance benefits in accordance with benefit plans previously communicated to the affected employee group or with local employment laws. Of the 1,006 targeted employees, 135 employees have not yet been terminated, but are expected to be terminated by the end of 2010.

Recognized a net gain associated with the disposal of the sauces and dressings business in the North American Foodservice segment.

Recognized costs related to the implementation of common information systems across the organization in order to improve operational efficiencies.

Recognized costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative.

Significant actions completed during the first nine months of 2010 and the status of the remaining elements of the 2009 actions, along with the remaining accruals, is described below. The accrued amounts remaining represent those cash expenditures necessary to satisfy remaining obligations. The majority of the cash payments to satisfy the accrued costs are expected to be paid in the next 12 months. The corporation does not anticipate any additional material future charges related to the 2009 actions. The composition of these charges and the remaining accruals are summarized below.

(In millions)	Employee termination and other benefits	Transformation/ Accelerate costs IT and other	Total
Accrued costs as of June 27, 2009	$ 95	$ 6	$ 101
Non-cash charges	(1)		(1)
Cash payments	(51)	(2)	(53)
Change in estimate	(6)	(1)	(7)

Foreign exchange impacts		(1)				(1)
Accrued costs as of March 27, 2010	$	36	$	3	$	39

2008 Actions

During 2008, the corporation approved certain actions related to exit, disposal and transformation activities and recognized cumulative charges of $89 million related to these actions. Each of these activities was completed within a 12-month period after being approved and included the following:

Implemented a plan to terminate 525 employees and provide them with severance benefits in accordance with benefit plans previously communicated to the affected employee group or with local employment laws. Essentially all of these employees have been terminated at this time.

Incurred costs to exit certain leased space, including the exit of a North American R&D facility.

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Recognized net gains associated with the disposal of several asset groupings, the largest of which was a $3 million gain related to the disposition of a North American Foodservice manufacturing facility. Total proceeds from these disposals were $9 million.

Recognized costs related to the implementation of common information systems across the organization in order to improve operational efficiencies.

The status of the remaining elements of the 2008 actions, along with the remaining accruals, is described below. The accrued amounts remaining represent those cash expenditures necessary to satisfy remaining obligations. The majority of the cash payments to satisfy the accrued costs are expected to be paid in the next 12 months. The corporation does not anticipate any additional material future charges related to the 2008 actions. The composition of these charges and the remaining accruals are summarized below.

(In millions)	Employee termination and other benefits	Non-cancelable lease and other contractual obligations	Total
Accrued costs as of June 27, 2009	$ 11	$ 3	$ 14
Cash payments	(4)	(1)	(5)
Change in estimate		2	2
Accrued costs as of March 27, 2010	$ 7	$ 4	$ 11

In periods prior to 2008, the corporation had approved and completed various actions to exit certain defined business activities and lower its cost structure and these actions have had minimal impact on current year results. As of March 27, 2010, the accrued liabilities remaining in the Condensed Consolidated Balance Sheet related to these completed actions total $24 million and primarily represent certain severance obligations. These accrued amounts are expected to be satisfied in cash and will be funded from operations.

7. Financial Instruments

Background Information

The corporation uses derivative financial instruments, including forward exchange, futures, options and swap contracts, to manage its exposures to foreign exchange, commodity prices and interest rate risks. The use of these derivative financial instruments modifies the exposure of these risks with the intent to reduce the risk or cost to the corporation. The corporation does not use derivatives for trading or speculative purposes and is not a party to leveraged derivatives.

The corporation recognizes all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheet. The corporation uses either hedge accounting or mark-to-market accounting for its derivative instruments. For derivatives that qualify for hedge accounting, the corporation designates these derivatives as fair value, cash flow or net investment hedges by formally documenting the hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. The process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions.

As noted above, the corporation uses derivative financial instruments to manage some of its exposure to commodity prices. A commodity derivative not declared a hedge in accordance with the accounting rules related to derivative instruments and hedging activities is accounted for under mark-to-market accounting with changes in fair value recorded in the Consolidated Statements of Income. The corporation includes these unrealized mark-to-market gains and losses in general corporate expenses until the derivative instrument is settled. At that time, the cumulative gain or loss previously recorded in general corporate expenses for the derivative instrument will be reclassified into the business segment s results.

On the date the derivative is entered into, the corporation designates the derivative as one of the following types of hedging instruments and accounts for the derivative as follows:

Fair Value Hedge A hedge of a recognized asset or liability or an unrecognized firm commitment is declared as a fair value hedge which qualifies for hedge accounting. For fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings and are reported in the Consolidated Statements of Income on the same line as the hedged item.

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Cash Flow Hedge A hedge of a forecasted transaction, firm commitment or of the variability of cash flows to be received or paid related to a recognized asset or liability is declared a cash flow hedge. Cash flow hedges qualify for hedge accounting. The effective portion of the change in the fair value of the derivative that is declared as a cash flow hedge is recorded in accumulated other comprehensive income (within common stockholders equity) and later reclassified to the income statement at the same time the underlying hedged item impacts the income statement. In addition, both the fair value of changes excluded from the corporation s effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in Selling, general and administrative expenses in the Consolidated Statements of Income.

At March 27, 2010 the maximum maturity date of any cash flow hedge was approximately three years principally related to two cross currency swaps that mature in 2012 and 2013. The corporation expects to reclassify into earnings during the next twelve months net gains from Accumulated Other Comprehensive Income of approximately $1 million at the time the underlying hedged transaction is recognized in the Consolidated Statement of Income.

Net Investment Hedge A hedge of the exposure of changes in the underlying foreign currency denominated subsidiary net assets is declared as a net investment hedge. Net investment hedges qualify for hedge accounting. Net investment hedges can include either derivative or non-derivative instruments such as, non-U.S. dollar financing transactions or non-U.S. dollar assets or liabilities, including intercompany loans. The effective portion of the change in the fair value of net investment hedges is recorded in the cumulative translation adjustment account within common stockholders equity. At March 27, 2010, the U.S. dollar equivalent of intercompany loans and forward exchange contracts designated as net investment hedges was $4.7 billion. The corporation increased its net investment hedges in the third quarter in order to hedge 1.6 billion of proceeds anticipated to be generated by the divestiture of its air care and body care businesses.

Mark-to-Market Hedge A derivative that does not qualify for hedge accounting in one of the categories above is accounted for under mark-to-market accounting and referred to as a mark-to-market hedge. Changes in the fair value of a mark-to-market hedge are recognized in the Consolidated Statements of Income to act as an economic hedge against the changes in the values of another item or transaction. Changes in the fair value of derivatives classified as mark-to-market hedges are reported in earnings in either the Cost of sales or Selling, general and administrative expenses lines of the Consolidated Statements of Income where the change in value of the underlying transaction is recorded.

Types of Derivative Instruments

Interest Rate and Cross Currency Swaps To manage interest rate risk, the corporation has entered into interest rate swaps that effectively convert certain fixed-rate debt instruments into floating-rate debt instruments. Interest rate swap agreements that are effective at hedging the fair value of fixed-rate debt agreements are designated and accounted for as fair value hedges. The corporation utilizes interest rate swap derivatives in order to maintain a targeted amount of both fixed-rate and floating-rate long term debt and notes payable. Currently, the corporation has a fixed interest rate on approximately 70% of long-term debt and notes payable issued.

The corporation has issued certain foreign-denominated debt instruments and utilizes cross currency swaps to reduce the variability of functional currency cash flows related to the foreign currency debt. Cross currency swap agreements that are effective at hedging the variability of foreign-denominated cash flows are designated and accounted for as cash flow hedges. As of March 27, 2010, the total notional amount of the corporation s interest rate swaps and cross currency swaps were $385 million and $746 million, respectively. The notional value of the cross currency swaps is calculated by multiplying the euro value swapped by the exchange rate at the reporting date.

In connection with the funding of the anticipated retirement of the 6.25% notes in September 2011, the corporation maintains a $50 million forward starting swap to effectively fix the cash flows related to interest payments on the anticipated debt issuance.

Currency Forward Exchange, Futures and Option Contracts The corporation uses forward exchange and option contracts to reduce the effect of fluctuating foreign currencies on short-term foreign-currency-denominated intercompany transactions, third-party product-sourcing transactions, foreign-denominated investments (including subsidiary net assets) and other known foreign currency exposures. Gains and losses on the derivative instruments are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. Forward currency exchange contracts mature at the anticipated cash requirement date of the hedged transaction, generally within one year to eighteen months. Forward currency exchange contracts which are effective at hedging the fair value of a recognized asset or liability are designated and accounted for as fair value hedges. Forward currency contracts that act as a hedge of changes in the underlying foreign currency denominated subsidiary net assets are accounted for as net investment hedges. All remaining currency forward and options contracts are accounted for as mark-to-market hedges.

The principal currencies hedged by the corporation include the European euro, British pound, Danish krone, Hungarian forint, U.S. dollar, Swiss franc and Brazilian real. As of March 27, 2010, the net U.S. dollar equivalent of commitments to purchase and sell foreign currencies is $4,565 million and $4,551 million, respectively, using the exchange rate at the reporting date. The corporation hedges virtually all foreign exchange risk derived from recorded transactions and firm commitments and only hedges foreign exchange risk related to anticipated transactions where the exposure is potentially significant.

The corporation did not have any foreign exchange option contracts outstanding as of March 27, 2010.

Commodity Futures and Options Contracts The corporation uses commodity futures and options to hedge a portion of its commodity price risk. The principal commodities hedged by the corporation include hogs, beef, natural gas, diesel fuel, coffee, corn, wheat and other ingredients. The corporation does not use significant levels of commodity financial instruments to hedge commodity prices and primarily relies upon fixed rate supplier contracts to determine commodity pricing. In circumstances where commodity-derivative instruments are used, there is a high correlation between the commodity costs and the derivative instruments. For those instruments where the commodity instrument and underlying hedged item correlate between 80-125%, the corporation accounts for those contracts as cash flow hedges. However, the majority of commodity derivative instruments are accounted for as mark-to-market hedges.

As of March 27, 2010, the total notional amount of commodity futures and option contracts was $121 million and $27 million, respectively. The notional amount of commodity futures contracts is determined by the initial cost of the contracts while the notional amount of options contracts is determined by the delta adjusted value as of period end.

The corporation only enters into futures and options contracts that are traded on established, well-recognized exchanges that offer high liquidity, transparent pricing, daily cash settlement and collateralization through margin requirements.

Cash Flow Presentation

The settlement of derivative contracts related to the purchase of inventory, commodities or other hedged items that utilize hedge accounting are reported in the Consolidated Statements of Cash Flows as an operating cash flow, while those derivatives that utilize the mark-to-market hedge accounting model are reported in investing activities when those contracts are realized in cash. Fixed to floating rate swaps are reported as a component of interest expense and therefore are reported in cash flow from operating activities similar to how cash interest payments are reported. The portion of the gain or loss on a cross currency swap that offsets the change in the value of interest expense is recognized in cash flow from operations, while the gain or loss on the swap that is offsetting the change in value of the debt is classified as a financing activity in the Consolidated Statement of Cash Flows.

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Contingent Features/Concentration of Credit Risk

All of the corporation s derivative instruments are governed by International Swaps and Derivatives Association (i.e. ISDA) master agreements, requiring the corporation to maintain an investment grade credit rating from both Moody s and Standard & Poor s credit rating agencies. If the corporation s debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate collateralization on the derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on March 27, 2010, is $251 million for which the corporation has posted no collateral. If the credit-risk-related contingent features underlying these agreements were triggered on March 27, 2010, the corporation would be required to post collateral of, at most, $251 million with its counterparties.

A large number of major international financial institutions are counterparties to the corporation s financial instruments including cross currency swaps, interest rate swaps, and currency exchange forwards and swaps. The corporation enters into financial instrument agreements only with counterparties meeting very stringent credit standards (a credit rating of A-/A3 or better), limiting the amount of agreements or contracts it enters into with any one party and, where legally available, executing master netting agreements. These positions are continually monitored. While the corporation may be exposed to credit losses in the event of nonperformance by individual counterparties of the entire group of counterparties, it has not recognized any losses with these counterparties in the past and does not anticipate material losses in the future.

Fair Value Measurements

Effective the beginning of 2009, the corporation implemented new accounting guidance related to the fair value of financial assets and liabilities while in 2010 new fair value accounting rules were adopted for non-financial assets and liabilities. The adoption of these rules did not have a significant impact on the measurement of the corporation s assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value must be categorized into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value while level 3 generally requires significant management judgment. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1 Unadjusted Quoted Prices Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities. An example would be a marketable equity security that is traded on a major stock exchange.

Level 2 Pricing Models with Significant Observable Inputs Valuations are based on information derived from either an active market quoted price, which may require further adjustment based on the attributes of the asset or liability being measured, or an inactive market transaction. Circumstances when adjustments to market quoted prices may be appropriate include (i) a quoted price for an actively traded equity investment that is adjusted for a contractual trading restriction, or (ii) the fair value derived from a trade of an identical or similar security in an inactive market. An interest rate swap derivative valued based on a LIBOR swap curve is an example of a level 2 asset or liability.

Level 3 Pricing Models with Significant Unobservable Inputs Valuations are based on internally derived assumptions surrounding the timing and amount of expected cash flows for the financial instrument, which are significant to the overall fair value measurement. These assumptions are unobservable in either an active or inactive market. The inputs reflect management s best estimate of what market participants would use in valuing the asset or liability at the measurement date. A goodwill impairment test that utilizes an internally developed discounted cash flow model is an example of a level 3 asset or liability.

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The carrying amounts of cash and equivalents, trade accounts receivables, accounts payable, derivative instruments and notes payable approximate fair values.

The fair values and carrying amounts of long-term debt, including the current portion, at March 27, 2010 were $2,822 million and $2,734 million, and at June 27, 2009 were $2,780 million and $2,784 million, respectively. The fair value of the corporation s long-term debt, including the current portion, is estimated using discounted cash flows based on the corporation s current incremental borrowing rates for similar types of borrowing arrangements.

Information on the location and amounts of derivative fair values in the Condensed Consolidated Balance Sheet at March 27, 2010 and June 27, 2009 is as follows:

	Assets				Liabilities			
	Other Current Assets		Other Non-Current Assets		Accrued Liabilities Other		Other	
(in millions)	Mar. 27, 2010	June 27, 2009	Mar. 27, 2010	June 27, 2009	Mar. 27, 2010	June 27, 2009	Mar. 27, 2010	June 27, 2009
Derivatives designated as hedging instruments:								
Interest rate contracts (b)	$ 3	$ 3	$ 28	$ 30	$	$	$	$
Foreign exchange contracts (b)	29	1				8	206	249
Commodity contracts (a)	1	1						
Total derivatives designated as hedging instruments	33	5	28	30		8	206	249
Derivatives not designated as hedging instruments:								
Foreign exchange contracts (b)	30	61			45	34		
Commodity contracts (a)		1						
Total derivatives not designated as Hedging instruments	30	62			45	34		
Total derivatives	$ 63	$ 67	$ 28	$ 30	$ 45	$ 42	$ 206	$ 249

(a) Categorized as level 1: Fair value of level 1 assets and liabilities as of March 27, 2010 are $1 million and nil and at June 27, 2009 are $2 million and nil, respectively.

(b) Categorized as level 2: Fair value of level 2 assets and liabilities as of March 27, 2010 are $90 million and $251 million and at June 27, 2009 are $95 million and $291 million, respectively.

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Information related to our cash flow hedges, net investment hedges, fair value hedges and other derivatives not designated as hedging instruments for the quarterly and nine-month periods ended March 27, 2010, and March 28, 2009, follows:

(In Millions)	Interest Rate Contracts Quarter ended Mar. 27, 2010	Interest Rate Contracts Quarter ended Mar. 28, 2009	Foreign Exchange Contracts Quarter ended Mar. 27, 2010	Foreign Exchange Contracts Quarter ended Mar. 28, 2009	Commodity Contracts Quarter ended Mar. 27, 2010	Commodity Contracts Quarter ended Mar. 28, 2009	Total Quarter ended Mar. 27, 2010	Total Quarter ended Mar. 28, 2009
Cash Flow Derivatives:								
Amount of gain (loss) recognized in other comprehensive income (OCI) (a)	$ (1)	$ 1	$ 39	$ 19	$ (3)	$ (2)	$ 35	$ 18
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)			45	20	(1)	(8)	44	12
Amount of ineffectiveness recognized in earnings (c) (d)			(2)				(2)	
Net Investment Derivatives:								
Amount of gain recognized in OCI (a)			232	136			232	136
Fair Value Derivatives:								
Amount of derivative gain (loss) recognized in earnings (e)	5	1		(81)			5	(80)
Amount of Hedged Item gain (loss) recognized in earnings (e)		3		88				91
Derivatives Not Designated as Hedging Instruments:								
Amount of gain (loss) recognized in Cost of Sales			13	4	(2)	(2)	11	2
Amount of gain (loss) recognized in SG&A			(38)	1	(1)	1	(39)	2

(In Millions)	Nine Months ended Mar. 27, 2010	Nine Months ended Mar. 28, 2009	Nine Months ended Mar. 27, 2010	Nine Months ended Mar. 28, 2009	Nine Months ended Mar. 27, 2010	Nine Months ended Mar. 28, 2009	Nine Months ended Mar. 27, 2010	Nine Months ended Mar. 28, 2009
Cash Flow Derivatives:								
Amount of gain (loss) recognized in OCI (a)	$	$ 1	$ 33	$ 63	$ (1)	$ (30)	$ 32	$ 34
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)			31	82	(3)	(11)	28	71
Amount of ineffectiveness recognized in earnings (c) (d)			(8)			(2)	(8)	(2)
Net Investment Derivatives:								
Amount of gain recognized in OCI (a)			145	549			145	549
Fair Value Derivatives:								
Amount of Derivative gain (loss) recognized in earnings (e)	12	33		13			12	46
Amount of Hedged Item gain (loss) recognized in earnings (e)	1	(24)		(8)			1	(32)
Derivatives Not Designated as Hedging Instruments:								
Amount of gain (loss) recognized in Cost of sales			14	(3)	1	(21)	15	(24)
Amount of gain (loss) recognized in SG&A			3	(176)		(36)	3	(212)

(a) Effective portion.

(b) Gain (loss) reclassified from AOCI into earnings is reported in interest, for interest rate swaps, in selling, general, and administrative (SG&A) expenses for foreign exchange contracts and in cost of sales for commodity contracts.

(c) Gain (loss) recognized in earnings is related to the ineffective portion and amounts excluded from the assessment of hedge effectiveness.

(d) Gain (loss) recognized in earnings is reported in interest expense for foreign exchange contracts and SG&A expenses for commodity contracts.

(e) The amount of gain (loss) recognized in earnings on the derivative contracts and the related hedged item is reported in interest for the interest rate contracts and SG&A for the foreign exchange contracts.

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8. Pension and Other Postretirement Benefit Plans

The components of the net periodic pension cost and the postretirement medical cost (income) for the third quarter and first nine months of 2010 and 2009 are as follows:

(In millions)	Pension Third Quarter 2010	Pension Third Quarter 2009	Postretirement Medical and Life Insurance Third Quarter 2010	Postretirement Medical and Life Insurance Third Quarter 2009
Service cost	$ 16	$ 15	$ 1	$ 2
Interest cost	64	61	3	4
Expected return on plan assets	(65)	(64)		
Amortization of				
Prior service cost (credit)	1	2	(7)	(5)
Net actuarial loss	13	3		1
Net periodic benefit cost	$ 29	$ 17	$ (3)	$ 2
Curtailment gain	$ 24	$	$	$

(In millions)	Pension Nine Months 2010	Pension Nine Months 2009	Postretirement Medical and Life Insurance Nine Months 2010	Postretirement Medical and Life Insurance Nine Months 2009
Service cost	$ 45	$ 45	$ 3	$ 5
Interest cost	198	194	8	11
Expected return on plan assets	(193)	(202)		
Amortization of				
Transition (asset) obligation			(1)	(1)
Prior service cost (credit)	5	6	(21)	(16)
Net actuarial loss	39	8	1	2
Net periodic benefit cost	$ 94	$ 51	$ (10)	$ 1
Curtailment gain	$ 24	$	$	$ 12

The net periodic benefit cost of the corporation s defined benefit pension plans in the first nine months of 2010 was $43 million higher than in 2009 as a result of the following:

A decline in the expected return on plan assets as a result of a decline in asset values as of the beginning of the current fiscal year as compared to the prior year end.

The amortization of net actuarial losses increased in 2010 as a result of an increase in net unamortized actuarial losses which are required to be amortized in future years. The amount of unamortized actuarial losses increased from $570 million at the end of 2008 to $883 million as of the end of 2009 primarily as a result of actuarial losses on plan assets. This resulted in a higher level of loss amortization in 2010.

In 2010, the corporation classified the international household and body care businesses as discontinued operations and anticipates retaining the pension and postretirement medical obligations related to those businesses. The corporation no longer anticipates incurring service cost for the participants in those plans after these businesses are sold and this cost component is recognized in discontinued operations while the remainder of net periodic benefit cost is recognized in continuing operations.

During the first nine months of 2010 and 2009, the corporation contributed $100 million and $235 million, respectively, to its defined benefit pension plans. At the present time, the corporation expects to contribute approximately $130 million of cash to its defined benefit pension plans in 2010, or $30 million additional in the fourth quarter, as part of its normal funding requirements. However, in February 2010, the corporation announced that it intends to make an additional $200 million dollar contribution to its pension plans, which is not included in the $130 million estimate above. The exact amount of cash contributions made to pension plans in any year is dependent upon a number of factors including minimum funding requirements in the jurisdictions in which the corporation operates and arrangements made with trustees of certain foreign plans. As a result, the actual funding in 2010 may differ from the current estimate.

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In March 2010, the corporation announced changes to its U.S. defined benefit pension plans for salaried employees whereby participants will no longer accrue benefits under these plans. All future retirement benefits will be provided through a defined contribution plan. The benefit plan changes resulted in the elimination of any expected years of future service associated with these plans. As a result, a pretax curtailment gain of $25 million was recognized, of which $24 million impacted continuing operations and $1 million impacted discontinued operations. The curtailment gain resulted from the recognition of $3 million of previously unamortized net prior service credits associated with these benefit plans as well as a $22 million reduction in the projected benefit obligation associated with one of the plans. As a result of the significant benefit plan changes, the plan assets and liabilities of the two U.S. defined benefit plans were remeasured. Based on the results of the remeasurement, the net underfunded position of these plans decreased by approximately $13 million, which was recognized as a decrease in noncurrent pension liabilities with an offsetting decrease in the unamortized actuarial loss in accumulated other comprehensive income (AOCI). The reduction in the net underfunded position related to an increase in assets due to improved investment performance partially offset by an increase in the projected benefit obligation due to a decrease in discount rates.

During 2009, the corporation entered into a new collective labor agreement in the Netherlands which eliminated postretirement health care benefits for certain employee groups, while also reducing benefits provided to others. The elimination of benefits resulted in the recognition of a curtailment gain of $17 million, of which $12 million impacted continuing operations, related to a portion of the unamortized prior service cost credit which was reported in accumulated other comprehensive income. The plan changes also resulted in a $32 million reduction in the accumulated postretirement benefit obligation with an offset to AOCI.

As discussed in footnote 4, Discontinued Operations, the corporation received a binding offer for the sale of the corporation s body care and European detergents businesses in the first quarter of 2010 and a binding offer for the air care business in the second quarter of 2010. Based on the proposed terms of the sales agreements, the corporation anticipates a significant reduction in the expected years of future service for the employees associated with a defined benefit pension plan in the Netherlands. Although the business dispositions have not yet been completed, a pretax curtailment loss of $11 million has been recognized because the loss is both probable and reasonably estimable. The curtailment loss, which relates to the previously unamortized prior service cost associated with this benefit plan, was recognized in the results of discontinued operations. In conjunction with the curtailment, the plan assets and liabilities of the Netherlands defined benefit plan were remeasured as of the end of December 2009. Based on the results of the remeasurement, the net funded position of this plan declined by approximately $81 million, which was recognized as a decrease in noncurrent pension assets with an offsetting increase in the unamortized actuarial loss in AOCI. This reduction in net funded position primarily related to a reduction in the discount rate used to determine the projected benefit obligation.

The corporation recognized a $7 million charge to income during the first quarter of 2010 to establish the estimated partial withdrawal liability for certain multi-employer pension plans. The charges were all recognized in Selling, general and administrative expenses in the Consolidated Statements of Income and related to the North American Fresh Bakery segment.

9. Receipt of Contingent Sale Proceeds

The corporation sold its European cut tobacco business in 1999. Under the terms of that agreement, the corporation was to receive an annual cash payment of 95 million euros if tobacco continued to be a legal product in the Netherlands, Germany and Belgium through July 15, 2009. The contingencies associated with the 2010 and 2009 payments passed in the first quarter of each fiscal year and the corporation received the annual payments and recorded income in the Contingent sales proceeds line in the Consolidated Statements of Income. The payment received in 2009 increased annual diluted earnings per share by $0.21 and the payment received in 2010 is expected to increase annual diluted earnings per share by $0.19. The payment received in 2010 represents the final payment to be received under the terms of the sale agreement.

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10. Income Taxes

Effective Annual Tax Rate for Interim Reporting   Generally accepted accounting principles require that the interim period tax provision be determined as follows:

At the end of each quarter, the corporation estimates the tax that will be provided for the fiscal year stated as a percent of estimated ordinary income for the fiscal year. The term ordinary income refers to income from continuing operations before income taxes, excluding significant unusual or infrequently occurring items as defined by the guidelines for the accounting for income taxes. Discontinued operations are excluded in determining ordinary income.

The estimated annual effective tax rate is applied to the year-to-date ordinary income at the end of each quarter to compute the year-to-date tax applicable to ordinary income. The tax expense or benefit related to ordinary income in each quarter is the difference between the most recent year-to-date and the prior quarter year-to-date computations.

The tax effects of significant unusual or infrequently occurring items are recognized as discrete items in the interim period in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about valuation allowances established in prior years and changes in tax reserves resulting from the finalization of tax audits or reviews are examples of significant unusual or infrequently occurring items which are recognized as discrete items in the interim period in which the event occurs.

The determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of the corporation in each tax jurisdiction in which it operates and the development of tax planning strategies during the year. In addition, as a global commercial enterprise, the corporation s tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following table sets out the tax expense (benefit) and the effective tax rate for the corporation:

	Third Quarter		**Nine Months**	
(In millions)	**2010**	**2009**	**2010**	**2009**
Continuing operations:				
Income before income taxes	$ 198	$ 172	$ 744	$ 400
Income tax expense	173	39	224	116
Effective tax rate	87.1%	22.5%	30.1%	28.9%

Third Quarter and First Nine Months of 2010

In the third quarter of 2010, the corporation recognized tax expense of $173 million on pretax income from continuing operations of $198 million, or an effective tax rate of 87.1%. The tax expense and related effective tax rate on continuing operations were impacted by recognizing $22 million of discrete tax expense related to the following items:

$43 million of tax expense related to a Belgian litigation proceeding that is expected to result in additional income tax expense. (See Note 11 Contingencies and Commitments)

$19 million of tax benefit, of which $18 million is associated with a change in estimated 2009 foreign taxes paid or accrued.

$9 million of tax benefit related to the settlement of tax audits and expiration of statutes of limitations in France, the Netherlands, Spain, and the United States, of which $1 million of tax benefit is from the settlement of tax audits, and $8 million of tax benefit is from the expiration of statutes of limitations.

$7 million of tax expense related to deferred tax adjustments, of which $3 million related to a change in the law on the deductibility of benefits reimbursed under the Medicare Part D retiree prescription drug program.

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In the first nine months of 2010, the corporation recognized tax expense of $224 million on pretax income from continuing operations of $744 million, or an effective tax rate of 30.1%. The tax expense and related effective tax rate on continuing operations was determined by applying a 39.1% estimated annual effective tax rate to pretax earnings and then recognizing $67 million of discrete tax benefits. The discrete tax items relate to the following:

$103 million of tax benefit primarily from the settlement of tax audits and expiration of the statutes of limitations in the United Kingdom, Hungary, Spain, the United States, South Africa, France, the Netherlands, and various state and local jurisdictions, of which $95 million is primarily from the settlement of audits with the tax authorities, and $8 million is from the expiration of statutes of limitations.

$43 million of tax expense related to a Belgian litigation proceeding that is expected to result in additional income tax expense. (See Note 11 Contingencies and Commitments)

$25 million of tax expense to establish a valuation allowance on net operating losses and other deferred tax assets in Belgium.

$20 million of tax benefit from the release of a valuation allowance on the deferred tax assets of the corporation s Brazilian subsidiaries.

$19 million of tax benefit, of which $18 million is associated with a change in estimated 2009 foreign taxes paid or accrued.

$7 million of tax expense related to deferred tax adjustments, of which $3 million related to a change in the law on the deductibility of benefits reimbursed under the Medicare Part D retiree prescription drug program.

The corporation s 2010 estimated annual effective tax rate increased from 25.7% to 39.1% primarily due to a one-time tax charge of $118 million related to current year foreign earnings that are no longer indefinitely reinvested. This tax charge is in connection with the company s third quarter decision, announced February 16, 2010, to no longer reinvest overseas earnings primarily attributable to existing overseas cash and the book value of the household and body care businesses. Herein after this tax charge may also be referred to as the tax on unremitted earnings. This tax charge increased the estimated annual effective tax rate by approximately 14%. The portion of this tax charge recognized in the first nine months of 2010 is $102 million, all of which was recognized in the third quarter. Additionally, for the same reasons as noted above, the first nine months of 2010 includes a $416 million charge in discontinued operations.

The 2010 estimated annual effective tax rate also includes $18 million of non-recurring tax benefits related to the utilization of United Kingdom net operating losses which lowered the estimated annual effective rate by approximately 2%. The portion of this tax benefit recognized in the first nine months of 2010 is $16 million, of which $4 million was recognized in the third quarter.

Third Quarter and First Nine Months of 2009

In the third quarter of 2009, the corporation recognized tax expense of $39 million on pretax income from continuing operations of $172 million, or an effective tax rate of 22.5%. The tax rate in the third quarter was impacted by $7 million of tax expense related to the following discrete tax items:

$13 million expense relates to adjustments of taxes previously provided on the 2008 earnings of the corporation, consisting primarily of a net $4 million understatement of tax related to foreign exchange gains, and a $10 million write-off of state tax benefits on foreign exchange losses offset by $1 million of other provision adjustments.

$5 million benefit relates to adjustments of prior year tax provision estimates.

$1 million benefit relates to various discrete items, none of which were material individually or in the aggregate.

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The estimated annual effective tax rate includes a charge of $53 million related to the expected repatriation of a portion of 2009 foreign earnings. The estimated charge increases the estimated annual effective tax rate by approximately 10%.

The tax expense and related effective tax rate on continuing operations, for the first nine months of 2009, were determined by applying a 26.9% estimated annual effective tax rate to pretax earnings and then recognizing the impact of $8 million of tax expense related to the following discrete tax items:

- $13 million expense relates to adjustments of taxes previously provided on the 2008 earnings of the corporation, consisting primarily of a net $4 million understatement of tax related to foreign exchange gains, and a $10 million write-off of state tax benefits on foreign exchange losses offset by $1 million of other provision adjustments.

- $5 million benefit relates to adjustments of prior year tax provision estimates.

The corporation s 2009 estimated annual effective tax rate decreased from 33.4% to 26.9% due to a $29 million non-recurring tax benefit from current year foreign exchange gains. A significant portion of this non-recurring tax benefit should have been reflected in prior quarters of 2009. Management believes this error is immaterial to the quarterly financial statements.

Unrecognized Tax Benefits

Each quarter, the corporation makes a determination of the tax liability needed for unrecognized tax benefits that should be recorded in the financial statements. For tax benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The year-to-date net decrease in the liability for unrecognized tax benefits was $118 million, resulting in an ending balance of $434 million as of March 27, 2010. There was a decrease in the gross liability for uncertain tax positions of $142 million, of which $92 million relates to audit settlements, $24 million relates to the expiration of statutes of limitations, $9 million relates to prior year decreases, and $17 million relates to favorable foreign currency exchange translation. This decrease was offset by an increase in the gross liability for uncertain tax positions of $24 million, all of which relate to 2010 increases.

At this time, the corporation estimates that it is reasonably possible that the liability for unrecognized tax benefits will decrease between $90 $130 million in the next twelve months from a variety of uncertain tax positions as a result of the completion of various worldwide tax audits currently in process and the expiration of statutes of limitations in several jurisdictions.

The corporation s tax returns are routinely audited by federal, state, and foreign tax authorities and these audits are at various stages of completion at any given time. The Internal Revenue Service (IRS) has completed examinations of the company s U.S. income tax returns through July 1, 2006. Fiscal years remaining open to examination in the Netherlands include 2003 and forward. Other foreign jurisdictions remain open to audits after 2000. With few exceptions, the company is no longer subject to state and local income tax examinations by tax authorities for years before June 28, 2003.

As expected, in October 2009, the Spanish tax administration upheld the challenge made by its local field examination team against tax positions taken by the corporation s Spanish subsidiaries. In November 2009, the corporation filed an appeal against this claim with the Spanish Tax Court. In April 2010, the Spanish Chief Inspector upheld a portion of the claim raised by the Spanish tax authorities, which the corporation will appeal. The corporation believes it is adequately reserved for the claim upheld by the Spanish Chief Inspector. However, in order to continue its appeal, the corporation anticipates obtaining a bank guarantee in 2010 for up to $135 million as security against all allegations. The corporation continues to dispute the challenge and will continue to communicate with the Spanish tax authorities regarding this issue.

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11. Contingencies and Commitments

Aris This is a consolidation of cases filed by individual complainants with the Republic of the Philippines, Department of Labor and Employment and the National Labor Relations Commission (NLRC) from 1998 through July 1999. The complaint alleges unfair labor practices due to the termination of manufacturing operations in the Philippines by Aris Philippines, Inc. (Aris), a former subsidiary of the corporation. The complaint names the corporation as a party defendant. In 2006, the arbitrator ruled against the corporation and awarded the plaintiffs $60 million in damages and fees, and the corporation appealed this ruling. In December 2006, the NLRC set aside the arbitrator s ruling, and remanded the case to the arbitrator for further proceedings. The complainants and the corporation have filed motions for reconsideration the corporation seeking a final judgment and outright dismissal of the case, and complainants seeking to reinstate the original arbitrator s judgment against the defendants, including the corporation. The respective motions for reconsideration have been fully briefed and the parties await the NLRC s rulings.

In response to the arbitrator s original ruling, the Court of Appeals required the corporation to post a bond of approximately $25 million. However, the corporation has appealed the decision to the Supreme Court and, as a result, no bond posting is required until all allowable appeals have been exhausted. The corporation continues to believe that the plaintiffs claims are without merit; however, it is reasonably possible that this case will be ruled against the corporation and have a material adverse impact on the corporation s results of operations or cash flows.

American Bakers Association Retirement Plan (ABA Plan) The corporation is a participating employer in the ABA Plan. In 1979, the Pension Benefit Guaranty Corporation (PBGC) determined that the ABA Plan was an aggregate of single-employer pension plans rather than a multiple employer plan. Under the express terms of the ABA Plan s governing documents, the corporation s contributions can only be used to pay for the benefits of its own employee-participants. In August 2006, the PBGC reversed its 1979 determination and concluded that the ABA Plan is and always has been a multiple employer plan in which the participating parties share responsibility for any plan liabilities (2006 Determination). If the 2006 Determination was upheld, it would have required the corporation to be responsible for a substantial portion of the ABA Plan s underfunded liabilities. The corporation initiated litigation in the United States District Court for the District of Columbia seeking to overturn the 2006 Determination.

On December 1, 2009, the United States District Court upheld the 2006 Determination. However, the corporation moved the Court to alter or amend its Order to specifically state, among other things, that the 2006 Determination is prospective only and that the ABA Plan is deemed to have been, and shall for all purposes be treated as, an aggregate of single-employer pension plans from its establishment until the date of the 2006 Determination. On February 18, 2010, the Court granted the corporation s motion, specifically stating that the 2006 Determination has prospective effect only. The time period for any party to appeal the Court s amended Order ended on April 19, 2010, and no appeals were filed.

Based on the Court s amended Order, the ABA Plan should be treated as an aggregate of single-employer pension plans prior to the 2006 Determination (i.e., the 2006 Determination would have no retroactive application) and as a multiple employer pension plan after the 2006 Determination. We are awaiting updated actuarial calculations; however, we believe that the amended Order significantly reduces the corporation s responsibility for the ABA Plan s underfunded liabilities prior to August 8, 2006.

As a result of the amended Order, the corporation began to recognize the obligations as if the ABA Plan was a multiple employer pension plan, with all future contributions to the plan immediately expensed in the consolidated statements of income. The corporation does not believe the resolution of this matter will have a material adverse impact on the corporation s financial position, results of operations or cash flows.

Hanesbrands Inc. In September 2006, the corporation spun off its branded apparel business into an independent publicly-traded company named Hanesbrands Inc. (HBI). In connection with the spin off, the corporation and HBI entered into a tax sharing agreement that governs the allocation of tax assets and liabilities between the parties. HBI has initiated binding arbitration claiming that it is owed $72 million from the corporation under the tax sharing agreement. The corporation believes HBI s claims are without merit and is vigorously contesting the matter. The parties are engaging in discovery and the final hearing is scheduled for mid-June 2010. The corporation expects that this matter will be resolved by the end of August 2010.

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Multi-Employer Pension Plans The corporation participates in various multi-employer pension plans that provide retirement benefits to certain employees covered by collective bargaining agreements (MEPP). Participating employers in a MEPP are jointly responsible for any plan underfunding. MEPP contributions are established by the applicable collective bargaining agreements; however, the MEPPs may impose increased contribution rates and surcharges based on the funded status of the plan and the provisions of the Pension Protection Act, which requires substantially underfunded MEPPs to implement rehabilitation plans to improve funded status. The corporation believes that its contributions to MEPPs may increase by approximately 12% to 15% through 2011 due to increased contribution rates and surcharges MEPPs are expected to impose under the Pension Protection Act. Factors that could impact funded status of a MEPP include investment performance, changes in the participant demographics, financial stability of contributing employers and changes in actuarial assumptions.

In addition to regular contributions, the corporation could be obligated to pay additional contributions (known as a complete or partial withdrawal liability) if a MEPP has unfunded vested benefits. These withdrawal liabilities, which would be triggered if the corporation ceases to make contributions to a MEPP with respect to one or more collective bargaining units, would equal the corporation s proportionate share of the unfunded vested benefits based on the year in which liability is triggered. The corporation believes that certain of the MEPPs in which it participates have unfunded vested benefits, and some are significantly underfunded. Withdrawal liability triggers could include the corporation s decision to close a plant or the dissolution of a collective bargaining unit. Due to uncertainty regarding future withdrawal liability triggers, we are unable to determine the amount and timing of the corporation s future withdrawal liability, if any, or whether the corporation s participation in these MEPPs could have any material adverse impact on its financial condition, results of operations or liquidity. Disagreements over potential withdrawal liability may lead to legal disputes. The corporation currently is involved in litigation with one MEPP and it is reasonably possible that the outcome of this litigation may result in an additional partial withdrawal liability of approximately $16 million.

The corporation s regular scheduled contributions to MEPPs totaled $49 million in 2009, $48 million in 2008 and $47 million in 2007. The corporation recognized charges for partial withdrawal liabilities of approximately $7 million in 2010 to date, $31 million in 2009, and an immaterial amount in 2008.

Competition Law During the past few years, competition authorities in various European countries and the European Commission have initiated investigations into the conduct of consumer products companies. These investigations usually continue for several years and, if violations are found, may result in substantial fines. In connection with these investigations, Sara Lee s household and body care business operating in Europe has received requests for information, made employees available for interviews, and been subjected to unannounced inspections by various competition authorities. In the second quarter of 2010, the corporation recognized a 3.7 million euro charge for a fine imposed by the Spanish Competition Authorities related to claims that the corporation engaged in inappropriate activities to indirectly increase prices of its shower gel products. To date, except for the Spanish fine and the previously disclosed 5.5 million euros fine imposed by the German cartel authorities in February 2008, no formal charges have been brought against Sara Lee concerning the substantive conduct that is the subject of these investigations. Our practice is to comply with all laws and regulations applicable to our business, including the antitrust laws, and to cooperate with relevant regulatory authorities.

Charges for fines that already have been imposed against the corporation, as noted above, have been reflected in the consolidated statements of income in the year we were notified of the fine. The corporation also recognized a charge of 4 million euros in the third quarter of 2010 as an estimate of additional fines that may be imposed. Based on currently available information, it is reasonably possible the corporation may be subject to additional fines related to several of these investigations and, with respect to one of these investigations, it is probable that a fine will be imposed. However, we are unable to estimate the impact on our financial statements of additional fines, if any, that may be imposed against the corporation.

Belgian tax matter In 1997, the corporation sold a Belgian subsidiary to an unrelated third party. At the time of the sale, the Belgian subsidiary owed a Belgian tax liability of approximately 30 million euros (resulting from an intercompany restructuring completed before the 1997 sale) and the third party buyer assumed all assets and liabilities of the subsidiary. In 1999, the former Belgian subsidiary, then owned by the third party buyer, declared bankruptcy and did not pay the outstanding Belgian tax liability. In 2001, the Belgian Ministry of Finance launched an investigation into the 1997 sale. In November 2009, the corporation received from the Belgian state prosecutor a notice of intent to indict the third party buyer as well as several of the corporation s international subsidiaries and several current and former directors and officers of such subsidiaries, in connection with the 1997 sale. The notice alleges various tax-related legal violations, some of which carry criminal penalties. The corporation is engaged in settlement discussions with the Belgian authorities. Although no settlement has been reached, based on currently available information the corporation accrued $43 million for Belgian taxes, interest, and penalties in the third quarter.

12. Subsequent event Debt Issuance

On March 30, 2010, a subsidiary of the corporation issued 300 million of euro denominated debt, which is scheduled to mature in March 2012. The notes were issued at a fixed rate of 2.25% but have effectively been converted into variable rate debt using interest rate swap instruments. The proceeds were used to retire 285 million euro of debt that was scheduled to mature in 2011.

Item 2

Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following is management s discussion and analysis of the results of operations for the third quarter and first nine months of 2010 compared with the third quarter and first nine months of 2009 and a discussion of the changes in financial condition and liquidity during the first nine months of 2010. Below is an outline of the analyses included herein:

- Business Overview
- Summary of Results
- Consolidated Results Third Quarter and First Nine Months of 2010
- Operating Results by Business Segment
- Financial Condition
- Liquidity
- Significant Accounting Policies and Critical Estimates
- Issued but not yet Effective Accounting Standards
- Forward-Looking Information

Business Overview

Our Business

Sara Lee is a global manufacturer and marketer of high-quality, brand name products for consumers throughout the world focused primarily in the meat, bakery, and beverage products categories. Our brands include *Ball Park*, *Douwe Egberts*, *Hillshire Farm*, *Jimmy Dean*, *Senseo* and our namesake, *Sara Lee*.

In North America, the company sells a variety of packaged meat products that include hot dogs, corn dogs, breakfast sausages, dinner sausages and deli meats as well as a variety of fresh and frozen baked products and specialty items that include bread, buns, bagels, cakes and cheesecakes. These products are sold through the retail channel to supermarkets, warehouse clubs and national chains. The company also sells a variety of meat, bakery and beverage products to foodservice customers in North America. Internationally, the company sells coffee and tea products in Europe, Brazil, Australia and Asia through both the retail and foodservice channels as well as a variety of bakery and dough products to retail and foodservice customers in Europe and Australia.

In September 2009, the corporation announced that it had received a binding offer to acquire its global body care and European detergents businesses for 1.275 billion euros. In December 2009, the

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corporation also announced that it had received a binding offer for the sale of its air care business for 320 million euros. Together these businesses represent approximately 70% of the net sales of the international household and body care businesses. The results of these businesses and the remaining household and body care businesses, which were previously reported as a separate business segment, are now being reported as discontinued operations. Prior period results have been revised to reflect these businesses as discontinued operations. See Note 4 Discontinued Operations for additional information regarding these discontinued operations. Unless stated otherwise, any reference to income statement items in these financial statements refers to results from continuing operations. The corporation intends to use the proceeds from the divestiture to, among other things, repurchase stock, make additional contributions to its pension plans and invest for growth in its core businesses.

Summary of Results

The business highlights include the following:

- Reported operating income for the third quarter of 2010 was $228 million, an increase of $21 million over the same period of the prior year. The increase was due to improved operating results for the North American Retail and International Beverage segments, partially offset by an increase in general corporate expenses due to a $26 million decline in mark-to-market results related to unrealized commodity derivatives and a $25 million increase in other general corporate expenses due to charges for Accelerate activities and a tax indemnification.

- Net sales for the third quarter of $2.6 billion were virtually unchanged as the negative impact of volume declines, planned business exits, and pricing actions were offset by the favorable impact of changes in foreign currency exchange rates and a favorable sales mix shift.

- Diluted earnings per share from continuing operations declined from $0.19 to $0.04 due to a significant increase in income tax expense, which was the result of a $102 million, or $0.15 per share, charge related to the tax on unremitted earnings.

- Total cash flow from operating activities of $807 million for the first nine months of 2010 showed a very strong increase of $504 million over the prior year driven primarily by improved operating results, lower pension contributions and improved working capital management. Discontinued operations contributed $231 million of the total cash from operating activities, an increase of $78 million over the prior year.

Challenges and Risks

As an international consumer products company, we face certain risks and challenges that impact our business and financial performance. The risks and challenges described below have impacted our performance and are likely to impact our future results as well.

The food businesses are highly competitive. In many product categories, we compete not only with widely advertised branded products, but also with private label products that are generally sold at lower prices. As a result, from time to time, we may need to reduce the prices for some of our products to respond to competitive pressures. In addition, the turmoil in the financial markets has led to general economic weakness, which has negatively impacted our business. The continued economic uncertainty may also result in increased pressure to reduce the prices for some of our products, limit our ability to increase or maintain prices or lead to a continued shift toward private label products. Any reduction in prices or our inability to increase prices could negatively impact profit margins and the overall profitability of our reporting units, which could potentially trigger a goodwill impairment.

Commodity prices directly impact our business because of their effect on the cost of raw materials used to make our products and the cost of inputs to manufacture, package and ship our products. In addition, under some of our contracts, the prices at which we sell our products are tied to increases and decreases in commodity costs. Many of the commodities we use, including coffee, wheat, beef, pork, corn, corn syrup, soybean and corn oils, butter, sugar and fuel, have experienced price volatility due to factors beyond our control. The company s objective is to offset commodity price increases with pricing actions and to offset any operating cost increases with continuous improvement savings.

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The company s business results are also heavily influenced by changes in foreign currency exchange rates. For the most recently completed fiscal year, approximately 35% of net sales and 50% of operating segment income were generated outside of the U.S. As a result, changes in foreign currency exchange rates, particularly the European euro, can have a significant impact on the reported results. Changes in foreign currency exchange rates increased net sales by $162 million and increased operating income by $22 million for the first nine months of 2010.

The company s international operations also provide a significant portion of the company s cash flow from operating activities, which is expected to require the company to continue to repatriate a significant portion of cash generated outside of the U.S. The repatriation of these funds has and is expected to continue to result in a higher effective income tax rate and cash tax payments.

Significant Items Affecting Comparability

The reported results for 2010 and 2009 reflect amounts recognized for actions associated with the corporation s ongoing business transformation program, Project Accelerate and other significant amounts that impact comparability. More information on these costs can be found in Note 6 to the Consolidated Financial Statements, Exit, Disposal and Transformation/Accelerate Activities. The nature of these items includes the following:

Exit Activities, Asset and Business Dispositions These costs are reported on a separate line of the Consolidated Statements of Income. Exit activities primarily relate to charges taken to recognize severance actions approved by the corporation s management and the exit of leased facilities or other contractual arrangements. Asset and business disposition activities include costs associated with separating businesses targeted for sale, as well as gains and losses associated with the disposition of asset groups that do not qualify for discontinued operations reporting.

Project Accelerate (Accelerate) Costs These include costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative. The initiative includes the outsourcing of a portion of the North American and European finance processing functions, information systems application development and maintenance as well as indirect procurement activities. These costs are recognized in the Consolidated Statements of Income in Selling, general and administrative expenses or Cost of sales. Employee termination costs, lease exit costs and gains or losses on the disposition of assets or asset groupings that do not qualify as discontinued operations associated with these initiatives are reported as part of exit activities, asset and business dispositions.

For continuing operations, the savings resulting from Accelerate and other restructuring actions were approximately $127 million in the first nine months of 2010, of which $89 million is incremental to the prior year. The corporation anticipates annualized savings in 2010 of approximately $170-$190 million related to these actions, of which $120-$140 million is incremental to the Accelerate savings in 2009.

Business Transformation Costs These include costs to retain and relocate existing employees, recruit new employees, and third-party consulting costs associated with transformation efforts. These costs are recognized in the Consolidated Statements of Income in Selling, general and administrative expenses or Cost of sales. Employee termination costs, lease exit costs and gains or losses on the disposition of assets or asset groupings that do not qualify as discontinued operations associated with these initiatives are reported as part of exit activities, asset and business dispositions.

Other Significant Items The reported results are also impacted by other items that affect comparability. These items include, but are not limited to, impairment charges, pension partial withdrawal liability charges, curtailment gains (losses) and certain discrete tax matters, which include charges related to the tax on unremitted earnings, audit settlements/reserve adjustments, valuation allowance adjustments and various other tax matters.

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Impact of Significant Items on Net Income and Diluted Earnings per Share Attributable to Sara Lee

In millions, except per share data	Quarter ended March 27, 2010 Pretax Impact	Net Income Attributable to Sara Lee (2)	Diluted EPS Impact (1)	Quarter ended March 28, 2009 Pretax Impact	Net Income Attributable to Sara Lee (2)	Diluted EPS Impact (1)
Income from continuing operations	$ 198	$ 25	$ 0.04	$ 172	$ 133	$ 0.19
Net income (loss) attributable to Sara Lee		$ (336)	$ (0.49)		$ 165	$ 0.24
Significant items affecting comparability of income from continuing operations:						
Charges for exit activities, asset and business dispositions:						
Income from (charges for) exit activities	$ (14)	$ (9)	$ (0.01)	$ (11)	$ (8)	$ (0.01)
Income from (charges for) business disposition activities	(11)	(8)	(0.01)			
Subtotal	(25)	(17)	(0.02)	(11)	(8)	(0.01)
(Charges to) income in Cost of sales:						
Accelerate charges	(1)	(1)				
Curtailment gain	7	5	0.01			
Pension partial withdrawal liability charge				(1)	(1)	
(Charges to) income in SG&A expenses:						
Transformation/Accelerate charges	(12)	(8)	(0.01)	(6)	(5)	
Curtailment gain	17	11	0.02			
Mexican tax indemnification	(15)	(10)	(0.01)			
Balance sheet corrections				8	5	0.01
Impact of significant items on income from continuing operations before significant tax matters	(29)	(20)	(0.03)	(10)	(9)	(0.01)
Significant tax matters affecting comparability:						
Tax on unremitted earnings		(102)	(0.15)			
Tax audit settlements/reserve adjustments		9	0.01		3	
Belgian tax proceeding		(43)	(0.06)			
U.K. net operating loss utilization		4	0.01			
Tax credit adjustment		18	0.03			
Provision expense corrections					(13)	(0.02)
Tax benefit on non-recurring foreign exchange gains					20	0.03
Other tax adjustments					(2)	
Impact of significant items on income from continuing operations	(29)	(134)	(0.19)	(10)	(1)	
Significant items impacting discontinued operations:						
Tax on unremitted earnings		(416)	(0.60)			
Professional fees/other	(7)	(7)	(0.01)			
Curtailment gain	1	1				
Charges for exit activities				(5)	(3)	(0.01)
Gain on sale of discontinued operation	8	6	0.01			

Tax audit settlement/reserve adjustments		3								
Impact of significant items on net income (loss) attributable to Sara Lee	$	(27)	$	(547)	$	(0.79)	$	(15)	$	(4)	$

Notes:

(1) EPS amounts are rounded to the nearest $0.01 and may not add to the total.
(2) Taxes computed at applicable statutory rates.

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Impact of Significant Items on Net Income and Diluted Earnings per Share Attributable to Sara Lee

In millions, except per share data	Nine Months ended March 27, 2010 Pretax Impact	Nine Months ended March 27, 2010 Net Income Attributable to Sara Lee (2)	Nine Months ended March 27, 2010 Diluted EPS Impact (1)	Nine Months ended March 28, 2009 Pretax Impact	Nine Months ended March 28, 2009 Net Income Attributable to Sara Lee (2)	Nine Months ended March 28, 2009 Diluted EPS Impact (1)
Income from continuing operations	$ 744	$ 520	$ 0.75	$ 400	$ 284	$ 0.40
Net income attributable to Sara Lee		$ 319	$ 0.46		$ 378	$ 0.54
Significant items affecting comparability of income from continuing operations:						
Charges for exit activities, asset and business dispositions:						
Income from (charges for) exit activities	$ (33)	$ (21)	$ (0.03)	$ (44)	$ (31)	$ (0.04)
Income from (charges for) business disposition activities	(20)	(14)	(0.02)	3		
Subtotal	(53)	(35)	(0.05)	(41)	(31)	(0.05)
(Charges to) income in Cost of sales:						
Curtailment gain	7	5	0.01	6	4	0.01
Pension partial withdrawal liability charge	(1)	(1)		(13)	(9)	(0.01)
Accelerate charges - Other	(1)	(1)				
(Charges to) income in SG&A expenses:						
Transformation/Accelerate charges	(22)	(15)	(0.02)	(11)	(8)	(0.01)
Curtailment gain	17	11	0.02	6	4	0.01
Mexican tax indemnification	(15)	(10)	(0.01)			
Balance sheet corrections				8	5	0.01
Pension partial withdrawal liability charge	(6)	(4)	(0.01)	(18)	(11)	(0.02)
Impairment charges	(17)	(11)	(0.02)	(107)	(107)	(0.15)
Impact of significant items on income from continuing operations before significant tax matters	(91)	(61)	(0.09)	(170)	(153)	(0.22)
Significant tax matters affecting comparability:						
Tax on unremitted earnings		(102)	(0.15)			
U.K. net operating loss utilization		16	0.02			
Provision expense corrections					(13)	(0.02)
Tax audit settlement/reserve adjustments		103	0.15		5	0.01
Belgian tax proceeding		(43)	(0.06)			
Tax valuation allowance adjustment		(5)	(0.01)			
Tax credit adjustment		18	0.03			
Tax benefit on non-recurring foreign exchange gains					20	0.03
Other tax adjustments					(3)	
Impact of significant items on income from continuing operations	(91)	(74)	(0.10)	(170)	(144)	(0.21)
Significant items impacting discontinued operations:						
Professional fees/other	(22)	(20)	(0.03)	(2)	(1)	
Curtailment gain (loss)	(10)	(8)	(0.01)	5	4	

Transformation/Accelerate charges				(2)	(2)	
Charges for exit activities				(11)	(8)	(0.01)
Gain on sale of discontinued operation	8	6	0.01			
Tax valuation allowance adjustment		53	0.08			
Tax audit settlement/reserve adjustments		(3)			(1)	
Capital loss carryforward utilization		27	0.04			
Tax basis difference adjustment		11	0.02			
Tax on unremitted earnings		(421)	(0.61)			
Impact of significant items on net income attributable to Sara Lee	$ (115)	$ (429)	$ (0.61)	$ (180)	$ (152)	$ (0.21)

Notes:

(1) EPS amounts are rounded to the nearest $0.01 and may not add to the total.
(2) Taxes computed at applicable statutory rates.

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Consolidated Results Third Quarter of 2010 Compared with Third Quarter of 2009

The following table summarizes net sales and operating income for the third quarter of 2010 and 2009 and certain items that affected the comparability of these amounts:

Total Corporation Performance (In millions)	Quarter ended March 27, 2010	March 28, 2009	Change	Percent Change
Net sales	$ 2,578	$ 2,575	$ 3	0.1%
Increase / (decrease) in net sales from:				
Changes in foreign currency exchange rates	$	$ (103)	$ 103	
Acquisitions/dispositions		33	(33)	
Total	$	$ (70)	$ 70	
Operating income	$ 228	$ 207	$ 21	10.5%
Increase / (decrease) in operating income from:				
Changes in foreign currency exchange rates	$	$ (11)	$ 11	
Exit activities, asset and business dispositions	(25)	(11)	(14)	
Transformation/Accelerate charges	(13)	(6)	(7)	
Pension partial withdrawal liability charge		(1)	1	
Curtailment gain (loss)	24		24	
Mexican tax indemnification	(15)		(15)	
Balance sheet corrections		8	(8)	
Acquisitions/dispositions		3	(3)	
Total	$ (29)	$ (18)	$ (11)	

Net Sales

Net sales increased by $3 million or 0.1%. The strengthening of foreign currencies, particularly the European euro and Brazilian real increased reported net sales by $103 million, or 3.9%. Divestitures net of acquisitions occurring after the start of the third quarter of 2009 reduced net sales by $33 million, or 1.3%. Sales were negatively impacted by a 4.5% decline in unit volumes and pricing actions that decreased net sales by approximately 2% partially offset by a favorable shift in sales mix. Excluding the planned exits from the commodity meat and kosher meat businesses, unit volumes would have decreased only 1.2%. The following table summarizes the components of the percentage change in net sales as compared to the prior year:

Third quarter 2010

Net Sales Changes	Unit Volumes	+	Price/ Mix/Other	+	Acquisitions/ Divestitures	+	Foreign Exchange	=	Net Sales Change
Total Corporation	(4.5)%		2.0%		(1.3)%		3.9%		0.1%

Operating Income

Operating income increased by $21 million, or 10.5%. The year-over-year net impact of the changes in foreign currency exchange rates, exit activities, transformation/Accelerate charges and the other factors identified in the preceding table decreased operating income by $11 million.

Operating income was also negatively impacted by a $26 million decline in income related to unrealized commodity mark-to-market derivatives versus the prior year. The remaining increase in operating income of $58 million was primarily due to improved operating results in the business segments, especially the North American Retail and International Beverage segments. The individual components that impacted operating income are discussed in more detail below.

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Gross Margin

Gross margin dollars in the third quarter of 2010 increased $83 million over the prior year due to the impact of lower commodity costs, savings from continuous improvement programs and the favorable impact of changes in foreign currency exchange rates partially offset by the unfavorable impact of pricing actions, lower unit volumes, and the impact of business dispositions. The gross margin percent in the third quarter of 2010 increased to 39.4% from 36.2% in the third quarter of 2009 primarily due to the impact of lower commodity costs and savings from continuous improvement programs.

Selling, General and Administrative Expenses

	Quarter ended			
(In millions)	**March 27, 2010**	**March 28, 2009**	**Change**	**Percent Change**
SG&A expenses in the business segment results:				
Media advertising and promotion	$ 76	$ 65	$ 11	16.9%
Other	615	622	(7)	(1.1)
Total business segments	691	687	4	0.6
Amortization of identifiable intangibles	12	12		0.3
General corporate expenses:				
Other	57	29	28	96.5
Mark-to-market derivative (gains) / losses	2	(14)	16	NM
Total SG&A Expenses	$ 762	$ 714	$ 48	6.9%

Selling, general and administrative (SG&A) expenses increased by $48 million, or 6.9%. Measured as a percent of sales, SG&A expenses increased from 27.7% in 2009 to 29.6% in 2010. Changes in foreign currency exchange rates increased SG&A costs by $25 million, or 3.7%. The remaining increase in SG&A expenses is $23 million, or 3.2%. SG&A expenses in the business segments increased by $4 million, or 0.6%, as a reduction in distribution costs, as well as the impact of cost containment actions and a pension curtailment gain were offset by an $11 million increase in media advertising and promotion (MAP) spending. Other general corporate expenses increased $28 million versus the prior year due to higher charges for Accelerate actions, a $15 million charge related to a tax indemnification for a previously sold business and the year-over-year negative impact of some non-recurring prior year gains primarily related to a non-income related foreign tax refund and a reduction in contingent lease accruals. In the third quarter of 2010, the corporation reported mark-to-market derivative losses of $2 million, while in 2009 the mark-to-market derivatives were a gain of $14 million. The year-over-year decline in the results related to the mark-to-market derivatives was due to derivative energy contracts.

Transformation/Accelerate Actions, Impairment Charges, Exit Activities and Other Significant Items

The reported results for the third quarter of 2010 and 2009 reflect amounts recognized for actions associated with the corporation s ongoing Accelerate and business transformation programs and other exit and disposal actions. The expense related to exit activities, asset and business dispositions was $25 million in the third quarter of 2010 versus $11 million in the third quarter of 2009. As discussed in Note 6 to the financial statements, Exit, Disposal and Transformation/Accelerate Activities, the charges in 2010 and 2009 relate to the planned termination of employees related to both European and North American operations as part of Accelerate.

These actions are more fully described in the Exit, Disposal and Transformation/Accelerate Activities Note to the Consolidated Financial Statements.

Net Interest Expense

Net interest expense in the third quarter of 2010 was $30 million, a decrease of $5 million over the third quarter of the prior year. Interest expense decreased by $8 million, related primarily to lower average debt outstanding, and lower interest rates, while interest income decreased by $3 million, due to changes in interest rates.

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Income Tax Expense

Note 10 to the Consolidated Financial Statements provides a detailed explanation of the determination of the interim tax provision.

The following table sets out the tax expense (benefit) and effective tax rate for the corporation s continuing operations:

(In millions)	Third Quarter 2010	2009
Continuing operations		
Income before income taxes	$ 198	$ 172
Income tax expense	173	39
Effective tax rate	87.1%	22.5%

In the third quarter of 2010, the corporation recognized tax expense of $173 million on pretax income from continuing operations of $198 million, or an effective tax rate of 87.1%. The tax expense and related effective tax rate on continuing operations were impacted by recognizing $22 million of discrete tax expense related to the following items:

$43 million of tax expense related to a Belgian litigation proceeding that is expected to result in additional income tax expense. (See Note 11 Contingencies and Commitments)

$19 million of tax benefit, of which $18 million is associated with a change in estimated 2009 foreign taxes paid or accrued.

$9 million of tax benefit related to the settlement of tax audits and expiration of statutes of limitations in France, the Netherlands, Spain, and the United States, of which $1 million of tax benefit is from the settlement of tax audits, and $8 million of tax benefit is from the expiration of statutes of limitations.

$7 million of tax expense related to deferred tax adjustments, of which $3 million related to a change in the law on the deductibility of benefits reimbursed under the Medicare Part D retiree prescription drug program.

The corporation s 2010 estimated annual effective tax rate includes a one-time tax charge of $118 million related to current year foreign earnings that are no longer indefinitely reinvested. This tax charge is in connection with the company s third quarter decision to no longer reinvest overseas earnings primarily attributable to existing overseas cash and the book value of the household and body care businesses. This tax charge increased the estimated annual effective tax rate by approximately 14%. The portion of this tax charge recognized in the third quarter is $102 million. A similar charge is also included in the results of discontinued operations.

The 2010 estimated annual effective tax rate also includes $18 million of non-recurring tax benefits related to the utilization of United Kingdom net operating losses which lowered the estimated annual effective rate by approximately 2%. The portion of this tax benefit recognized in the third quarter is $4 million.

In the third quarter of 2009, the corporation recognized tax expense of $39 million on pretax income of $172 million, or an effective tax rate of 22.5%. The tax expense and related effective tax rate on continuing operations were impacted by recognizing $7 million of discrete tax expenses related to the following items:

$13 million expense relates to adjustments of taxes previously provided on the 2008 earnings of the corporation, consisting primarily of a net $4 million understatement of tax related to foreign exchange gains, and a $10 million write-off of state tax benefits on foreign exchange losses offset by $1 million of other provision adjustments.

$5 million benefit relates to adjustments of prior year tax provision estimates.

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$1 million benefit relates to various discrete items, none of which were material individually or in the aggregate.

Income from Continuing Operations and Diluted Earnings per Share (EPS)

Income from continuing operations in the third quarter of 2010 was $25 million, which was $108 million lower than the comparable period of the prior year. The decline in income was due to a $134 million increase in income tax expense due to the charge for the tax on unremitted earnings. The higher tax expense was partially offset by a $21 million increase in operating income and a $5 million decrease in net interest expense versus the prior year.

Diluted EPS from continuing operations was $0.04 in the third quarter of 2010 versus $0.19 in the third quarter of 2009. Diluted EPS were favorably impacted by lower average shares outstanding during the third quarter of 2010 than during the third quarter of 2009. The lower average shares are due to the corporation s ongoing share repurchase program.

Discontinued Operations Attributable to Sara Lee

Net sales from discontinued operations were $525 million in the third quarter of 2010, up 15.6% compared to the $454 million in net sales in the prior year. On a constant currency basis, net sales were up 5.3% primarily driven by strong performance in insecticides, shoe care and body care. Pre-tax income increased to $75 million from $56 million, driven by the volume growth, continuous improvement savings and lower commodity costs and favorable foreign exchange impacts partially offset by an increase in advertising and promotional spending. Pre-tax income was also favorably impacted by approximately $13 million of lower depreciation and amortization expense versus the prior year related to assets which are now classified as held for sale and as such no longer subject to depreciation and amortization under the accounting rules. The discontinued operations reported a net loss of $367 million in the third quarter of 2010 as compared to net income of $32 million in the third quarter of 2009 due to significantly higher tax expense in the current year. The higher tax expense in 2010 is due to a $416 million charge related to the tax on unremitted earnings. The results of discontinued operations in the third quarter of 2010 and 2009 are related to the international household and body care businesses and represent a full quarter of results in each period.

Net Income and Diluted Earnings per Share (EPS) Attributable to Sara Lee

In the third quarter of 2010, the corporation reported a net loss attributable to Sara Lee of $336 million versus net income attributable to Sara Lee of $165 million in the comparable period of the prior year. The $501 million decrease was due to a $518 million tax charge related to the tax on unremitted earnings, of which $102 million impacted continuing operations and $416 million impacted discontinued operations. Diluted EPS in the third quarter of 2010 was a loss of $0.49 per share versus income of $0.24 per share in the third quarter of 2009. Diluted EPS were impacted by lower average shares outstanding during the third quarter of 2010 than during the third quarter of 2009. The lower average shares are due to the corporation s ongoing share repurchase program.

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Consolidated Results First Nine Months of 2010 Compared with First Nine Months of 2009

The following table summarizes net sales and operating income for the first nine months of 2010 and 2009 and certain items that affected the comparability of these amounts:

Total Corporation Performance (In millions)	Nine Months ended March 27, 2010	March 28, 2009	Change	Percent Change
Net sales	$ 8,024	$ 8,225	$ (201)	(2.4)%
Increase / (decrease) in net sales from:				
Changes in foreign currency exchange rates	$	$ (162)	$ 162	
Acquisitions/dispositions	12	143	(131)	
Total	$ 12	$ (19)	$ 31	
Operating income	$ 835	$ 496	$ 339	68.5%
Increase / (decrease) in operating income from:				
Contingent sales proceeds	$ 133	$ 150	$ (17)	
Changes in foreign currency exchange rates		(22)	22	
Exit activities, asset and business dispositions	(53)	(41)	(12)	
Transformation/Accelerate charges	(23)	(11)	(12)	
Impairment charges	(17)	(107)	90	
Pension partial withdrawal liability charge	(7)	(31)	24	
Curtailment gain	24	12	12	
Mexican tax indemnification	(15)		(15)	
Balance sheet corrections		8	(8)	
Acquisitions/dispositions	1	11	(10)	
Total	$ 43	$ (31)	$ 74	

Net Sales

Net sales decreased by $201 million or 2.4%. The strengthening of foreign currencies, particularly the European euro and Brazilian real increased reported net sales by $162 million, or 1.9%. Divestitures net of acquisitions occurring after the start of 2009 reduced net sales by $131 million, or 1.5%. Sales were negatively impacted by a 3.1% decline in unit volumes and pricing actions that decreased net sales by approximately 1%, which were partially offset by a favorable shift in sales mix. Excluding the planned exit of the commodity meat and kosher meat businesses, unit volumes would have decreased only 1.0%. The following table summarizes the components of the percentage change in net sales as compared to the prior year:

First Nine months 2010

Net Sales Changes	Unit Volumes	+	Price/ Mix/Other	+	Acquisitions/ Divestitures	+	Foreign Exchange	=	Net Sales Change
Total Corporation	(3.1)%		0.3%		(1.5)%		1.9%		(2.4)%

Operating Income

Operating income increased by $339 million, or 68.5%. The year-over-year net impact of the changes in foreign currency exchange rates, transformation/Accelerate charges and the other factors identified in the preceding table increased operating income by $74 million. Operating income was also favorably impacted by a $33 million improvement in unrealized commodity mark-to-market derivatives versus the prior year. The remaining increase in operating income of $232 million was primarily due to improved operating results for the business segments, primarily in the North American Retail and International Beverage segment and a reduction in other general corporate expenses, after considering the higher Accelerate costs and a tax indemnification charge included in the table above. The individual components that impacted operating income are discussed in more detail below.

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Gross Margin

Gross margin dollars in the first nine months of 2010 increased $211 million over the prior year due to lower commodity costs and savings from continuous improvement programs and changes in foreign currency exchange rates partially offset by the unfavorable impact of pricing actions, lower unit volumes, and the impact of business dispositions. The gross margin percent in the first nine months of 2010 increased to 38.5% from 35.0% in the first nine months of 2009 primarily due to the impact of lower commodity costs and savings from continuous improvement programs.

Selling, General and Administrative Expenses

	Nine Months ended			
(In millions)	**March 27, 2010**	**March 28, 2009**	**Change**	**Percent Change**
SG&A expenses in the business segment results:				
Media advertising and promotion	$ 245	$ 237	$ 8	3.4%
Other	1,865	1,931	(66)	(3.4)
Total business segments	2,110	2,168	(58)	(2.7)
Amortization of identifiable intangibles	35	35		
General corporate expenses:				
Other	168	156	12	8.1
Mark-to-market derivative (gains) / losses	4	25	(21)	(81.5)
Total SG&A Expenses	$ 2,317	$ 2,384	$ (67)	(2.8)%

Selling, general and administrative (SG&A) expenses decreased by $67 million, or 2.8%. Measured as a percent of sales, SG&A expenses decreased from 29.0% in 2009 to 28.9% in 2010. Changes in foreign currency exchange rates increased SG&A costs by $36 million, or 1.5%. The remaining decrease in SG&A expenses is $103 million, or 4.3%. SG&A expenses in the business segments decreased by $58 million, or 2.7%, due to a reduction in distribution and selling costs and the impact of cost containment actions. Other general corporate expenses increased $12 million versus the prior year due to a $28 million year-over-year increase in charges related to Accelerate activities and a tax indemnification charge related to a previously divested business. The remaining decrease in other general corporate expenses was due to the impact of headcount reductions and lower casualty insurance and employee benefit costs and lower professional fees. Mark-to-market losses related to commodity derivatives were $21 million lower than the prior year due to an improvement in derivative energy contracts.

Transformation/Accelerate Actions, Impairment Charges, Exit Activities and Other Significant Items

The reported results for the first nine months of 2010 and 2009 reflect amounts recognized for actions associated with the corporation s ongoing Accelerate and business transformation programs and other exit and disposal actions. The charge related to exit activities, asset and business dispositions was $53 million in the first nine months of 2010 versus $41 million in the first nine months of 2009. As discussed in Note 6 to the financial statements, Exit, Disposal and Transformation/Accelerate Activities, the charges in 2010 and 2009 relate to the planned termination of employees related to both European and North American operations as part of Accelerate.

In the first nine months of 2010, the corporation recognized a $17 million impairment charge, $13 million of which related to the writedown of manufacturing equipment associated with the North American foodservice bakery reporting unit and $4 million of which related to the writedown of bakery equipment associated with the Spanish bakery reporting unit. The corporation recognized a $107 million impairment charge in the first nine months of 2009 related to goodwill associated with the foodservice beverage reporting unit. The corporation determined that the carrying amount of its foodservice beverage reporting unit, which is reported in the North American Foodservice segment, exceeded its fair value. Management compared the implied fair value of the goodwill in the reporting unit with the carrying value and concluded that an impairment charge needed to be recognized. No tax benefit was recognized on the goodwill impairment loss.

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These actions are more fully described in the Exit, Disposal and Transformation/Accelerate Activities and Impairment Review and Goodwill Notes to the Consolidated Financial Statements.

Receipt of Contingent Sale Proceeds

The corporation sold its European cut tobacco business in 1999. Under the terms of that agreement, the corporation received an annual cash payment of 95 million euros. The 2010 annual payment was equivalent to $133 million and the 2009 annual payment was equivalent to $150 million based upon the respective exchange rates on the dates of receipt. The amount received in 2009 increased diluted earnings per share by $0.21 and the amount received in 2010 is expected to increase diluted earnings per share by $0.19.

Net Interest Expense

Net interest expense in the first nine months of 2010 was $91 million, which was $5 million lower than the first nine months of the prior year. A decrease in interest expense of $21 million, related primarily to lower average debt outstanding and lower interest rates, was partially offset by a decline in interest income of $16 million, due to lower interest rates.

Income Tax Expense

Note 10 to the Consolidated Financial Statements provides a detailed explanation of the determination of the interim tax provision.

The following table sets out the tax expense (benefit) and effective tax rate for the corporation s continuing operations:

	First Nine Months	
(In millions)	**2010**	**2009**
Continuing operations		
Income (loss) before income taxes	$ 744	$ 400
Income tax expense	224	116
Effective tax rate	30.1%	28.9%

In the first nine months of 2010, the corporation recognized tax expense of $224 million on pretax income from continuing operations of $744 million, or an effective tax rate of 30.1%. The tax expense and related effective tax rate on continuing operations was determined by applying a 39.1% estimated annual effective tax rate to pretax earnings and then recognizing $67 million of discrete tax benefits. The discrete tax items relate to the following:

$103 million of tax benefit primarily from the settlement of tax audits and expiration of the statutes of limitations in the United Kingdom, Hungary, Spain, the United States, South Africa, France, the Netherlands, and various state and local jurisdictions, of which $95 million is primarily from the settlement of audits and discussions with the tax authorities, and $8 million is from the expiration of statutes of limitations.

$43 million of tax expense related to a Belgian litigation proceeding that is expected to result in additional income tax expense. (See Note 11 Contingencies and Commitments)

$25 million of tax expense to establish a valuation allowance on net operating losses and other deferred tax assets in Belgium.

$20 million of tax benefit from the release of a valuation allowance on the deferred tax assets of the corporation s Brazilian subsidiaries.

$19 million of tax benefit, of which $18 million is associated with a change in estimated 2009 foreign taxes paid or accrued.

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$7 million of tax expense related to deferred tax adjustments, of which $3 million related to a change in the law on the deductibility of benefits reimbursed under the Medicare Part D retiree prescription drug program.

The corporation s 2010 estimated annual effective tax rate increased from 25.7% to 39.1% primarily due to a one-time tax charge of $118 million related to current year foreign earnings that are no longer indefinitely reinvested. This tax charge is in connection with the company s third quarter decision, announced February 16, 2010, to no longer reinvest overseas earnings primarily attributable to existing overseas cash and the book value of the household and body care businesses. This tax charge increased the estimated annual effective tax rate by approximately 14%. The portion of this tax charge recognized in the first nine months of 2010 is $102 million. A similar charge is also included in discontinued operations. The corporation anticipates a tax charge on unremitted earnings of approximately $30 million in the fourth quarter related to both continuing and discontinued operations. Any future gains that may be recognized on the sale of the household and body care businesses will result in an additional tax charge in discontinued operations on the deemed repatriation of such gains.

The 2010 estimated annual effective tax rate also includes $18 million of non-recurring tax benefits related to the utilization of United Kingdom net operating losses which lowered the estimated annual effective rate by approximately 2%. The portion of this tax benefit recognized in the first nine months of 2010 is $16 million

In the first nine months of 2009, the corporation recognized tax expense of $116 million on pretax income of $400 million, or an effective tax rate of 28.9%. The tax expense and related effective tax rate on continuing operations were determined by applying a 26.9% estimated annual effective tax rate to pretax earnings and then recognizing $8 million of discrete tax expense. The discrete tax items relate to the following:

$13 million expense relates to adjustments of taxes previously provided on the 2008 earnings of the corporation, consisting primarily of a net $4 million understatement of tax related to foreign exchange gains, and a $10 million write-off of state tax benefits on foreign exchange losses offset by $1 million of other provision adjustments.

$5 million benefit relates to adjustments of prior year tax provision estimates.

The corporation s 2009 estimated annual effective tax rate of 26.9% includes a charge of $53 million related to the expected repatriation of a portion of 2009 foreign earnings. This charge increases the estimated annual effective tax rate by approximately 10%. The corporation s 2009 estimated annual effective tax rate also includes a $29 million non-recurring tax benefit from foreign exchange gains. This benefit decreases the estimated annual effective tax rate by approximately 5%. A significant portion of this non-recurring tax benefit should have been reflected in prior quarters of 2009. Management believes this error is immaterial to the quarterly financial statements.

Income from Continuing Operations and Diluted Earnings per Share (EPS)

Income from continuing operations in the first nine months of 2010 was $520 million, an increase of $236 million over the comparable period of the prior year, due to a $339 million increase in operating income and a $5 million reduction in net interest expense partially offset by a $108 million increase in income tax expense.

Diluted EPS from continuing operations increased from $0.40 in the first nine months of 2009 to $0.75 in the first nine months of 2010. Diluted EPS were favorably impacted by lower average shares outstanding during the first nine months of 2010 than during the first nine months of 2009. The lower average shares are due to the corporation s ongoing share repurchase program.

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Discontinued Operations Attributable to Sara Lee

Net sales reported by discontinued operations were $1,611 million in the first nine months of 2010, up 7.9% compared to the $1,493 million of net sales in the prior year. On a constant currency basis, net sales were up 3.9% primarily driven by growth in body care, shoe care and insecticides. Pre-tax income increased to $197 million from $154 million, driven by the higher sales, continuous improvement savings and favorable foreign exchange impacts partially offset by a $20 million increase in professional fees, a $10 million curtailment loss and higher media advertising and promotions in the current year, as well as the negative year-over-year impact of a $5 million nonrecurring curtailment gain in the prior year related to retiree benefit plans. Pre-tax income was also favorably impacted by approximately $21 million of lower depreciation and amortization expense versus the prior year related to assets which are now classified as held for sale and as such are no longer subject to depreciation and amortization beginning in the second quarter of 2010 under the accounting rules.

The net loss from discontinued operations was $207 million in the first nine months of 2010 as compared to net income of $94 million in the first nine months of 2009. The significantly higher tax expense in 2010 is due to a $416 million charge related to the tax on unremitted earnings partially offset by a tax benefit in 2010 due to the expected utilization of tax loss carryforwards and capital loss carryforwards precipitated by the anticipated sale of the household and body care businesses. The results of discontinued operations in the first nine months of 2010 and 2009 are related to the international household and body care businesses and represents a full nine months of results in each period.

Net Income and Diluted Earnings per Share (EPS) Attributable to Sara Lee

In the first nine months of 2010, the corporation reported net income attributable to Sara Lee of $319 million versus $378 million in the comparable period of the prior year. The $59 million decrease in net income was due to the $295 million decrease in income related to discontinuing operations due to a $416 million tax charge related to the tax on unremitted earnings partially offset by a $236 million increase in income from continuing operations. Diluted EPS decreased from $0.54 per share in the first nine months of 2009 to $0.46 per share in the first nine months of 2010. Diluted EPS were impacted by lower average shares outstanding during the first nine months of 2010 than during the first nine months of 2009. The lower average shares are due to the corporation s ongoing share repurchase program.

Operating Results by Business Segment

The results of the corporation s household and body care businesses, which were previously reported as a separate business segment, are now being reported as discontinued operations. Prior period results have been revised to reflect these businesses as discontinued operations. See Note 4 Discontinued Operations for additional information regarding these discontinued operations.

Net sales by business segment for the third quarter and first nine months of 2010 and 2009 are as follows:

	Net Sales			
	Quarter ended		**Nine Months ended**	
(In millions)	**March 27, 2010**	**March 28, 2009**	**March 27, 2010**	**March 28, 2009**
North American Retail	$ 672	$ 646	$ 2,076	$ 2,072
North American Fresh Bakery	501	530	1,541	1,640
North American Foodservice	427	487	1,413	1,638
International Beverage	799	741	2,417	2,295
International Bakery	186	179	601	607
Total business segments	2,585	2,583	8,048	8,252
Intersegment sales	(7)	(8)	(24)	(27)
Net sales	$ 2,578	$ 2,575	$ 8,024	$ 8,225

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Income from continuing operations before income taxes for the third quarter and first nine months of 2010 and 2009 are as follows:

	Income from Continuing Operations before Income Taxes			
	Quarter ended		Nine Months ended	
(In millions)	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
North American Retail	$ 101	$ 64	$ 303	$ 192
North American Fresh Bakery	6	2	36	3
North American Foodservice	26	25	109	2
International Beverage	173	131	468	381
International Bakery	(1)	11	4	7
Total operating segment income	305	233	920	585
Amortization of intangibles	(12)	(12)	(35)	(35)
General corporate expenses:				
Other	(58)	(33)	(177)	(165)
Mark-to-market derivative gains/(losses)	(7)	19	(6)	(39)
Contingent sale proceeds			133	150
Total operating income	228	207	835	496
Net interest expense	(30)	(35)	(91)	(96)
Income from continuing operations before income taxes	$ 198	$ 172	$ 744	$ 400

The following tables illustrate the components of the change in net sales versus the prior year for each business segment and the total corporation:

Third Quarter 2010

Net Sales Changes	Unit Volumes	+	Price/ Mix/Other	+	Acquisitions/ Divestitures	+	Foreign Exchange	=	Net Sales Change
North American Retail	(4.0)%		8.1%		0.0%		0.0%		4.1%
North American Fresh Bakery	(2.5)		(3.0)		0.0		0.0		(5.5)
North American Foodservice	(13.7)		7.4		(6.4)		0.3		(12.4)
International Beverage	(1.9)		(1.4)		0.0		11.1		7.8
International Bakery	(0.9)		(4.1)		0.0		9.0		4.0
Total Continuing Business	(4.5)%		2.0%		(1.3)%		3.9%		0.1%

First Nine Months 2010

Net Sales Changes	Unit Volumes	+	Price/ Mix/Other	+	Acquisitions/ Divestitures	+	Foreign Exchange	=	Net Sales Change
North American Retail	(4.7)%		4.9%		0.0%		0.0%		0.2%
North American Fresh Bakery	(3.0)		(3.1)		0.0		0.0		(6.1)
North American Foodservice	(7.1)		1.4		(8.2)		0.2		(13.7)
International Beverage	1.0		(1.7)		0.5		5.5		5.3
International Bakery	(2.4)		(3.6)		0.0		5.1		(0.9)

Total Continuing Business	(3.1)%	0.3%	(1.5)%	1.9%	(2.4)%

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The following tables summarize the net sales and operating segment income for each of the business segments for 2010 and 2009 and certain items that affected the comparability of these amounts:

North American Retail

(In millions)	Quarter ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change	Nine Months ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change
Net Sales	$ 672	$ 646	$ 26	4.1%	$ 2,076	$ 2,072	$ 4	0.2%
Operating segment income	$ 101	$ 64	$ 37	60.0%	$ 303	$ 192	$ 111	58.4%
Increase/(decrease) in operating segment income from								
Exit activities, asset and business dispositions	$	$	$		$ (3)	$ 1	$ (4)	
Curtailment gain	7		7		7		7	
Total	$ 7	$	$ 7		$ 4	$ 1	$ 3	
Gross margin %	35.0%	30.2%		4.8%	34.5%	28.5%		6.0%

Third quarter

Net sales increased by $26 million, or 4.1%, as an improved sales mix driven by innovative new products offset a decline in unit volumes, due to the continuing exit of the lower margin commodity hog business and the exit of the kosher meat business in the third quarter of the prior year. Pricing actions, net of trade promotions, decreased net sales by approximately 3%. The overall unit volume decline of 4.0% was due in part to the continuing exit of the commodity hog business and the exit of the kosher meat business. Unit volumes, excluding the planned exit from the commodity meat and kosher meat businesses, increased 8.6% due to higher volumes for breakfast sandwiches, breakfast sausages, sliced deli meats and smoked sausages partially offset by a decline in frozen bakery products.

Operating segment income increased by $37 million, or 60.0%, due to a $7 million pension curtailment gain, lower commodity costs, savings from continuous improvement programs and improved sales mix partially offset by the impact of increased trade promotions, lower unit volumes, and higher MAP spending.

First Nine months

Net sales increased by $4 million, or 0.2%. Sales increased as a result of an improved sales mix driven in part by the sale of innovative new products in the breakfast, hot dog and lunchmeat categories partially offset by the continuing exit of the lower margin commodity hog business and the impact of the exit of the kosher meat business in the third quarter of the prior year. Pricing actions, net of trade promotions decreased net sales by 1%. The overall unit volume decline of 4.7% was due to the continuing exit of the commodity hog business and the exit of the kosher meat business. Unit volumes, excluding the planned exit from the commodity meat and kosher meat businesses, increased 3.0% due to higher volumes for breakfast sandwiches and breakfast sausages, which more than offset volume declines for frozen bakery products.

Operating segment income increased by $111 million, or 58.4%. A pension curtailment gain, net of the negative impact of the change in exit activities, asset and business dispositions increased operating segment income by $3 million, or 1.7%. The remaining increase in operating segment income of $108 million, or 56.7%, was due to lower commodity costs, an improved sales mix, and savings from continuous improvement programs, which were partially offset by lower unit volumes, increased trade promotions and higher MAP spending.

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North American Fresh Bakery

(In millions)	Quarter ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change	Nine Months ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change
Net Sales	$ 501	$ 530	$ (29)	(5.5)%	$ 1,541	$ 1,640	$ (99)	(6.1)%
Operating segment income (loss)	$ 6	$ 2	$ 4	NM %	$ 36	$ 3	$ 33	NM %
Increase/(decrease) in operating segment income from:								
Exit activities, asset and business dispositions	$	$	$		$ (1)	$	$ (1)	
Curtailment gain	3		3		3		3	
Accelerate charges	(2)		(2)		(2)		(2)	
Pension partial withdrawal liability charge		(1)	1		(7)	(31)	24	
Total	$ 1	$ (1)	$ 2		$ (7)	$ (31)	$ 24	
Gross margin %	47.0%	45.6%		1.4%	47.2%	44.9%		2.3%

Third quarter

Net sales decreased by $29 million, or 5.5%. The decrease in net sales was due to price reductions, in response to lower commodity costs and competitive pressure, which decreased net sales by approximately 4%; a decline in unit volumes; partially offset by a favorable sales mix due to a shift to branded products. Unit volumes decreased 2.5% due to lower unit volumes for unbranded fresh bakery products partially offset by an increase in branded bakery volumes. The lower unbranded unit volumes were due to competitive pressures and the continuing weak economic conditions. The higher branded volumes were due to new product introductions and the impact of pricing actions.

Operating segment income increased by $4 million. The change in a pension curtailment gain, pension partial withdrawal liability charges and Accelerate charges increased operating segment income by $2 million. The remaining increase in operating segment income of $2 million, or 78.1%, was due to the favorable impact of lower costs for key ingredients net of pricing actions, savings from continuous improvement programs and lower SG&A costs driven by lower fuel costs and sales commissions, partially offset by lower volumes, and higher MAP spending.

First Nine months

Net sales decreased by $99 million, or 6.1% due to a decline in unit volumes; price reductions, in response to lower commodity costs and competitive pressure, which decreased net sales by approximately 3%; and an unfavorable sales mix due to a shift to non-branded products. Unit volumes decreased 3.0% due to lower unit volumes for branded and unbranded fresh bakery products. The lower volumes were due to increased competitive pressure and continuing weak economic conditions.

Operating segment income increased by $33 million. The change in pension partial withdrawal liability charges, curtailment gain, Accelerate charges and exit activities, asset and business dispositions increased operating segment income by $24 million. The remaining increase in operating segment income of $9 million, or 25.9%, was due to the favorable impact of lower costs for key ingredients net of pricing actions, savings from continuous improvement programs and lower SG&A costs driven by lower sales commissions, fuel costs, and MAP spending, partially offset by lower volumes and an unfavorable sales mix shift to lower margin non-branded products.

North American Foodservice

(In millions)	Quarter Ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change	Nine Months Ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change
Net Sales	$ 427	$ 487	$ (60)	(12.4)%	$ 1,413	$ 1,638	$ (225)	(13.7)%
Increase / (decrease) in net sales from								
Changes in foreign currency exchange rates	$	$ (2)	$ 2		$	$ (2)	$ 2	
Disposition		33	(33)			142	(142)	
Total	$	$ 31	$ (31)		$	$ 140	$ (140)	
Operating segment income	$ 26	$ 25	$ 1	3.0%	$ 109	$ 2	$ 107	NM%
Increase/(decrease) in operating segment income from								
Exit activities, asset and business dispositions	$ (8)	$ (2)	$ (6)		$ (10)	$ 2	$ (12)	
Impairment charge					(13)	(107)	94	
Curtailment gain	6		6		6		6	
Disposition		3	(3)			11	(11)	
Total	$ (2)	$ 1	$ (3)		$ (17)	$ (94)	$ 77	
Gross margin %	25.9%	25.2%		0.7%	26.8%	25.3%		1.5%

Third quarter

Net sales decreased by $60 million, or 12.4%. Business dispositions, which include the DSD beverage business, after the start of the third quarter of 2009, and changes in foreign currency exchange rates reduced net sales by $31 million, or 6.1%. The remaining net sales decrease of $29 million, or 6.3%, was due to unit volume declines for meat, bakery and beverage products partially offset by an improved sales mix. Pricing actions decreased sales by less than 1%. Overall net unit volumes declined 13.7% due to demand softness resulting from the continued weak economic conditions. The decline in meat volumes was also due to the planned exit of certain lower margin meat business. The decline in bakery volumes was due primarily to the loss of some pizza dough business, which offset increases in refrigerated dough products. Beverage volumes are down due to declines in roast and ground partially offset by improvement in coffee concentrates. However, the recent loss of some coffee concentrate business is expected to have a negative impact on the year-over-year profit comparisons in the beverage category beginning in 2011.

Operating segment income increased by $1 million. The change in curtailment gain and exit activities, asset and business dispositions had no net impact on operating segment income. Dispositions after the start of the third quarter of 2009 reduced operating segment income by $3 million. The remaining operating segment income increase of $4 million, or 16.2% was due to the favorable impact of an improved sales mix, lower commodity costs net of pricing actions, continuous improvement savings, and lower distribution and fuel costs, which were only partially offset by lower unit volumes.

First Nine months

Net sales decreased by $225 million, or 13.7%. Business dispositions, which include the DSD beverage business and a sauces and dressings business, after the start of 2009, reduced net sales by $142 million, while the change in foreign currency exchange rates increased net sales by $2 million. The remaining net sales decrease of $85 million, or 5.7%, was due to unit volume declines for meat, bakery and beverage products and the impact of price reductions in response to a decline in commodity costs. The pricing actions decreased sales by approximately 1%. Overall net unit volumes declined 7.1% due to demand softness resulting from the continued weak economic conditions. The decline in meat volumes was also driven in part by the planned exit of certain lower margin meat business. The decline in bakery volumes was due primarily to the loss of some pizza dough business, which offset increases in refrigerated dough products. Beverage volumes are down due to declines in roast and ground partially offset by

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improvement in coffee concentrates. However, the recent loss of some coffee concentrate business is expected to have a negative impact on the year-over-year profit comparisons in the beverage category beginning in 2011.

Operating segment income increased by $107 million. The net impact of the change in impairment charges, pension curtailment gain and exit activities, asset and business dispositions increased operating segment income by $88 million. Dispositions after the start of 2009 reduced operating segment income by $11 million. The remaining operating segment income increase of $30 million, or 31.1%, was due to the favorable impact of lower commodity costs net of pricing actions, continuous improvement savings, and lower distribution and fuel costs, which were only partially offset by lower unit volumes.

International Beverage

(In millions)	Quarter ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change	Nine Months ended Mar. 27, 2010	Mar. 28, 2009	Change	Percent Change
Net Sales	$ 799	$ 741	$ 58	7.8%	$ 2,417	$ 2,295	$ 122	5.3%
Increase / (decrease) in net sales from								
Changes in foreign currency exchange rates	$	$ (85)	$ 85		$	$ (128)	$ 128	
Acquisition/disposition					12	1	11	
Total	$	$ (85)	$ 85		$ 12	$ (127)	$ 139	
Operating segment income	$ 173	$ 131	$ 42	31.8%	$ 468	$ 381	$ 87	22.8%
Increase/(decrease) in operating segment income from								
Changes in foreign currency exchange rates	$	$ (11)	$ 11		$	$ (22)	$ 22	
Exit activities, asset and business dispositions	(4)	(4)			(4)	(6)	2	
Transformation/Accelerate charges		(1)	1			(2)	2	
Curtailment gain						12	(12)	
Acquisitions/dispositions					1		1	
Total	$ (4)	$ (16)	$ 12		$ (3)	$ (18)	$ 15	
Gross margin %	45.8%	40.5%		5.3%	42.9%	40.3%		2.6%

Third quarter

Net sales increased by $58 million, or 7.8%. The impact of foreign currency changes, particularly in the European euro and Brazilian real, increased reported net sales by $85 million, or 11.1%. The remaining decrease in net sales of $27 million, or 3.3%, resulted from a decrease in unit volumes and lower green coffee export sales. Pricing actions, which included increased trade promotion activity, reduced net sales by less than 1%. Unit volumes decreased 1.9% due to volume declines in single serve coffee and traditional roast and ground. Retail volumes in Europe decreased due to volume declines in single serve and traditional roast and ground due in part to competitive pressures from private label and hard discounters as well as weak economic conditions throughout Europe. The volume declines in Europe were partially offset by improved volumes in Brazil. Unit volumes in the foodservice channel increased due to improved results for coffee concentrates in Europe.

Operating segment income increased by $42 million, or 31.8%. Changes in foreign currency exchange rates increased operating segment income by $11 million, or 10.2%. The net change in exit activities asset and business dispositions and transformation/Accelerate charges increased operating segment income by $1 million. The remaining operating segment income increase of $30 million, or 19.7%, was due to a decrease in commodity costs, including hedging gains, and the benefits of continuous improvement programs, partially offset by the negative impact of unit volumes declines.

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First Nine months

Net sales increased by $122 million, or 5.3%. The impact of foreign currency changes, particularly in the European euro and Brazilian real, increased reported net sales by $128 million, or 5.5%. Acquisitions net of dispositions made after the start of 2009, increased net sales by $11 million, or 0.5%. The remaining decrease in net sales of $17 million, or 0.7%, resulted from increased trade promotions, an unfavorable shift in sales mix and lower green coffee export sales, partially offset by an increase in unit volumes. Pricing actions, which included increased trade promotion activity, reduced net sales by approximately 1%. Unit volumes increased 1.0% due to volume growth in single serve coffee, traditional roast and ground and instants partially offset by declines in coffee concentrates. Retail volumes in Europe decreased due to volume declines in traditional roast and ground due in part to competitive pressures from private label and hard discounters as well as weak economic conditions throughout Europe, which was partially offset by increases in single serve coffee volumes in France and Germany. The volume declines in Europe were offset by improved volumes in Brazil. Unit volumes in the foodservice channel decreased due to weak economic conditions in Europe.

Operating segment income increased by $87 million, or 22.8%. Changes in foreign currency exchange rates increased operating segment income by $22 million, or 6.8%. The net change in exit activities asset and business dispositions, transformation/Accelerate charges, a curtailment gain and acquisitions decreased operating segment income by $7 million, or 1.8%. The remaining operating segment income increase of $72 million, or 17.8%, was due to lower commodity costs including the impact of hedging gains, the increase in unit volumes, the benefits of continuous improvement programs, and lower MAP spending partially offset by the negative impact of pricing actions.

International Bakery

	Quarter Ended				Nine Months Ended			
(In millions)	**Mar. 27, 2010**	**Mar. 28, 2009**	**Change**	**Percent Change**	**Mar. 27, 2010**	**Mar. 28, 2009**	**Change**	**Percent Change**
Net Sales	$ 186	$ 179	$ 7	4.0%	$ 601	$ 607	$ (6)	(0.9)%
Increase / (decrease) in net sales from								
Changes in foreign currency exchange rates	$	$ (16)	$ 16		$	$ (32)	$ 32	
Total	$	$ (16)	$ 16		$	$ (32)	$ 32	
Operating segment income (loss)	$ (1)	$ 11	$ (12)	NM%	$ 4	$ 7	$ (3)	(40.4)%
Increase/(decrease) in operating segment income (loss) from								
Changes in foreign currency exchange rates	$	$ (1)	$ 1		$	$ (1)	$ 1	
Exit activities, asset and business dispositions	(11)	(1)	(10)		(26)	(29)	3	
Transformation/Accelerate charges	1		1			(1)	1	
Impairment charge					(4)		(4)	
Total	$ (10)	$ (2)	$ (8)		$ (30)	$ (31)	$ 1	
Gross margin %	38.9%	37.5%		1.4%	38.6%	37.5%		1.1%

Third quarter

Net sales increased by $7 million, or 4.0%. The impact of foreign currency changes in the European euro and Australian dollar increased reported net sales by $16 million, or 9.0%. The remaining net sales decrease of $9 million, or 5.0%, was the result of the negative impact of price reductions in response to lower commodity costs, which decreased net sales by approximately 4%, an unfavorable sales mix and lower unit volumes. Net unit volumes decreased 0.9% due to a decline in fresh bread volumes in Spain, as a result of a reduction in branded sales due in part to economic and competitive pressures partially offset by volume increases for refrigerated dough products in Europe. Unit volumes in

Australia were unchanged.

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Operating segment income decreased by $12 million. The net change in exit activities, asset and business dispositions, and transformation/Accelerate charges along with changes in foreign currency exchange rates decreased operating segment income by $8 million. The remaining decrease in operating segment income was $4 million, or 23.5%, as the impact of price actions, lower unit volumes and higher SG&A costs were only partially offset by continuous improvement savings and lower commodity costs.

First Nine months

Net sales decreased by $6 million, or 0.9%. The impact of foreign currency changes in the European euro and Australian dollar increased reported net sales by $32 million, or 5.1%. The remaining net sales decrease of $38 million, or 6.0%, was the result of the negative impact of price reductions in response to lower commodity costs, which decreased net sales by approximately 4%, lower unit volumes and an unfavorable sales mix. Net unit volumes decreased 2.4% due to a decline in fresh bread volumes in Spain, as a result of a reduction in branded sales due in part to economic and competitive pressures. These volume declines were partially offset by increased volumes in Australia and increased refrigerated dough volumes in Europe.

Operating segment income decreased by $3 million, or 40.4%. The net change in foreign currency exchange rates, exit activities, asset and business dispositions, transformation/Accelerate charges, and impairment charges increased operating segment income by $1 million. The remaining operating segment income decrease of $4 million, or 9.3%, was due to the negative impact of pricing actions, lower unit volumes, and an unfavorable sales mix shift to lower margin products partially offset by lower commodity costs and continuous improvement savings.

Financial Condition

The Consolidated Statements of Cash Flows includes amounts related to discontinued operations. The discontinued operations had a significant impact on the cash flows from operating activities for the first nine months of 2010 and 2009. See Note 4 Discontinued Operations for additional information regarding cash flows related to discontinued operations.

Cash from Operating Activities

The cash from operating activities generated by continuing and discontinued operations in the first nine months of 2010 and 2009 is summarized in the following table.

	Nine Months ended	
(In millions)	**March 27, 2010**	**March 28, 2009**
Cash from Operating Activities:		
Continuing Operations	$ 576	$ 150
Discontinued Operations	231	153
Total	$ 807	$ 303

The cash generated by operating activities in the first nine months of 2010 was $807 million, an increase of $504 million over the prior year. The increase was due in large part to the improved operating results, which were $363 million higher year-over-year, after adjusting for the gain on contingent sale proceeds and considering the non-cash charges for depreciation, amortization, impairment charges and the increase in deferred tax expense related to the deemed repatriation of foreign earnings. Cash from operations was also favorably impacted by a $135 million reduction in cash contributions to pension plans versus the prior year. The adjustment related to working capital improved from a use of $238 million in 2009 to a use of $218 million in 2010. The improvements in working capital related to accounts receivable, inventory, current assets and accounts payable due to better working capital management were partially offset by an increase in cash paid for restructuring actions and income taxes.

Cash used in Investment Activities

The cash used in investment activities was $13 million in the first nine months of 2010, which was $160 million less than the comparable period of 2009. The decrease in cash used in investment activities was due to the receipt of $61 million of cash related to derivative transactions in 2010 as compared to $140

million of cash used in derivative transactions in the prior year. The year-over-year change was due primarily to an increase in cash received on the settlement of foreign exchange derivative contracts. This increased source of cash was partially offset by a $49 million reduction in cash received from the disposition of businesses and investments; and a $17 million reduction in cash received from contingent sale proceeds in the first nine months of 2010 as a result of changes in foreign currency exchange rates. Capital expenditures for the purchases of property, equipment, software and other intangibles decreased by $10 million in 2010 from $236 million in 2009 to $226 million in 2010 due to a decrease in expenditures for software.

Cash used in Financing Activities

Net cash used in financing activities was $761 million during the first nine months of 2010, which was $232 million higher than the prior year period. The year-over-year increase in cash used was due to $500 million of share repurchases in the current year which was $397 million more than the prior year. The increased use of cash was partially offset by a $170 million reduction in the net cash used to repay short-term and long-term debt, net of new borrowings. In the first nine months of 2009, the corporation repaid $201 million of short-term and long-term debt as compared to a net repayment of $31 million during the first nine months of the current year. The cash dividends paid increased by $6 million in 2010.

Liquidity

Notes Payable/Cash and Equivalents

The balance of notes payable at March 27, 2010 of $36 million was $16 million higher than the amount reported at June 27, 2009. The corporation had cash and cash equivalents on the balance sheet at March 27, 2010 of $935 million, which was $16 million lower than the balance at June 27, 2009, due in part to the cash used to repurchase the corporation s common stock partially offset by cash generated by operating activities.

Anticipated Business Dispositions/Use of Proceeds

As noted previously, the corporation received binding offers to sell its global body care, European detergents and air care businesses for a total of 1.595 billion euros. The corporation intends to use the proceeds from the divestiture to, among other things, repurchase stock, make additional contributions to its pension plans and invest for growth in its core businesses. In March 2010, the corporation executed an accelerated share repurchase program under which it repurchased $500 million of its common stock. The repurchase is part of a recently announced capital plan under which the company intends to repurchase $2.5 to $3.0 billion of its common stock over a three year period, with up to $1.0 to $1.3 billion to be repurchased in calendar 2010. At March 27, 2010, the corporation had a remaining authorization to repurchase $2.5 billion of common stock under its existing share repurchase program plus 13.5 million shares of common stock remain authorized for repurchase under the corporation s prior share repurchase program. The timing and amount of future share repurchases will be based upon the completion of the corporation s sale of its household and body care businesses, market conditions and other factors. The corporation expects to maintain and gradually increase its current annualized dividend of $0.44 per share after the disposition of the household and body care businesses.

Credit Facility and Credit Ratings

The corporation has a $1.85 billion five-year revolving credit facility available that management considers sufficient to satisfy its operating requirements. This facility expires in December 2011 and the pricing under this facility is based upon the corporation s current credit rating. At March 27, 2010, the corporation did not have any borrowings outstanding under the credit facility and the facility does not mature or terminate upon a credit rating downgrade.

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The corporation s credit ratings by Standard & Poor s, Moody s Investors Service and FitchRatings, as of March 27, 2010, were as follows:

	Senior Unsecured Obligations	Short-term Borrowings	Outlook
Standard & Poor s	BBB	A-2	Stable
Moody s Investors Service	Baa1	P-2	Stable
FitchRatings	BBB	F-2	Stable

Changes in the corporation s credit ratings result in changes in the corporation s borrowing costs. The corporation s current short-term credit rating allows it to participate in a commercial paper market that has a number of potential investors and a higher degree of liquidity. A downgrade of the corporation s short-term credit rating would place the corporation in a commercial paper market that would contain significantly less market liquidity than it currently operates in with a rating of A-2 , P-2 or F-2. This would reduce the amount of commercial paper the corporation could issue and raise its commercial paper borrowing cost. To the extent that the corporation s operating requirements were to exceed its ability to issue commercial paper following a downgrade of its short-term credit rating, the corporation has the ability to use available credit facilities to satisfy operating requirements, if necessary.

Debt

The corporation s total long-term debt decreased $50 million in the first nine months of 2010, from $2,784 million at June 27, 2009, to $2,734 million at March 27, 2010, as a result of the repayment of approximately $30 million of maturing long-term debt during the first nine months of 2010 and the impact of changes in foreign currency exchange rates.

The corporation s total long-term debt is due to be repaid as follows: $5 million in the remainder of 2010; $398 million in 2011; $1,165 million in 2012; $530 million in 2013; $25 million in 2014; $72 million in 2015; and $539 million thereafter. These maturing debt obligations are expected to be satisfied with a combination of new long-term debt issuances, short-term borrowings, cash on hand, and operating cash flows.

On March 30, 2010, which was subsequent to the end of the third quarter, a subsidiary of the corporation issued 300 million of euro denominated debt, which is scheduled to mature in March 2012. The notes were issued at a fixed rate of 2.25% but have effectively been converted into variable rate debt using interest rate swap instruments. The proceeds were used to retire 285 million euro of debt that was scheduled to mature in 2011.

From time to time, the corporation opportunistically may repurchase or retire its outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the corporation s liquidity requirements, contractual restrictions and other factors. The amounts involved could be material.

Including the impact of swaps that are effective hedges and convert the economic characteristics of the debt, the corporation s long-term debt and notes payable consist of 70.0% fixed-rate debt as of March 27, 2010, as compared with 70.1% as of June 27, 2009. The corporation monitors the interest rate environments in the geographic regions in which it operates and modifies the components of its debt portfolio as necessary to manage interest rate and foreign currency risks.

Covenants

The corporation s debt agreements and credit facility contain customary representations, warranties and events of default, as well as, affirmative, negative and financial covenants with which the corporation is in compliance. One financial covenant includes a requirement to maintain an interest coverage ratio of not less than 2.0 to 1.0. The interest coverage ratio is based on the ratio of EBIT to consolidated net interest expense with consolidated EBIT equal to net income attributable to Sara Lee plus interest expense, income tax expense, and extraordinary or non-recurring non-cash charges and gains. For the 12 months ended March 27, 2010, the corporation s interest coverage ratio was 8.5 to 1.0.

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Leases

The corporation has numerous operating leases for manufacturing facilities, warehouses, office space, vehicles, machinery and equipment. Operating lease obligations are scheduled to be paid as follows: $26 million in the remainder of 2010; $76 million in 2011; $55 million in 2012; $38 million in 2013; $26 million in 2014; $20 million in 2015; and $69 million, thereafter. The corporation is contingently liable for certain long-term leases on property operated by others. These leased properties relate to certain businesses that have been sold. The corporation continues to be liable for the remaining terms of the leases on these properties in the event that the owners of the businesses are unable to satisfy the lease liability. The minimum annual rentals under these leases are as follows: $6 million in the remainder of 2010; $22 million in 2011; $16 million in 2012; $13 million in 2013; $12 million in 2014; $12 million in 2015; and $28 million, thereafter.

Future Contractual Obligations and Commitments

During 2007, the corporation exited a U.S. meat production plant that included a hog slaughtering operation. Certain purchase contracts for the purchase of live hogs at this facility were not exited or transferred after the closure of the facility. Under the terms of this contract, which is open through June 2012, the corporation will continue to purchase these live hogs and therefore, the corporation has entered into a hog sales contract under which these hogs will be sold to another slaughter operator. The corporation s purchase price of these hogs is generally based on the suppliers production costs, which includes the price of corn products, and the corporation s selling price for these hogs is generally based on USDA posted hog prices. Divergent movements in these indices will result in either gains or losses on these hog transactions. Expected losses from these hog purchase commitments are recognized when we determine the loss is probable of occurring.

The corporation has various funding obligations and certain contingent guaranty obligations that are outlined below.

Pension Plans

As shown in the Pension footnote to the Consolidated Financial Statements that was included in the corporation s 2009 Annual Report on Form 10-K, the funded status of the corporation s defined benefit pension plans is defined as the amount by which the projected benefit obligation exceeds the plan assets. The underfunded status of the plans was $466 million at the end of 2009 as compared to $321 million at the end of 2008. Further information on the corporation s pension plans is contained in Note 8 to these Consolidated Financial Statements. As discussed in Note 8, the corporation will no longer accrue benefits under its defined benefit plans for U.S. salaried employees. The corporation anticipates recognizing total pension expense for its defined benefit plans of approximately $115 million in 2010.

In the first nine months of 2010, the corporation contributed $100 million to these defined benefit pension plans and the corporation anticipates that approximately $130 million of cash contributions will be made for the entire fiscal year as part of its normal funding requirements. However, in February 2010, the corporation announced that it intends to make an additional $200 million dollar contribution to its pension plans, which is not included in the $130 million estimate above. The exact amount of cash contributions made to pension plans in any year is dependent upon a number of factors including minimum funding requirements in the jurisdictions in which the company operates and arrangements made with the trustees of certain foreign plans. As a result, actual funding in 2010 may be materially different from the current estimate. The Significant Accounting Policies section and Note 19 - Defined Benefit Pension Plans to the Consolidated Financial Statements, that are included in the corporation s 2009 Annual Report on Form 10-K, provide a more complete description of the measurement date, assumptions, funded status, expected benefit payments and funding policies related to these defined benefit plans.

The corporation participates in various multi-employer pension plans that provide retirement benefits to certain employees covered by collective bargaining agreements (MEPP). Participating employers in a MEPP are jointly responsible for any plan underfunding. MEPP contribution are established by the applicable collective bargaining agreements; however, the MEPPs may impose increased contribution rates and surcharges based on the funded status of the plan and the provisions of the Pension Protection Act, which requires substantially underfunded MEPPs to implement rehabilitation plans to improve funded status. The corporation believes that its contributions to MEPPs may increase by approximately 12% to 15% through 2011 due to increased contribution rates and surcharges MEPPs are expected to impose under the Pension Protection Act. Factors that could impact funded status of a MEPP include investment performance, changes in the participant demographics, financial stability of contributing employers and changes in actuarial assumptions.

In addition to regular contributions, the corporation could be obligated to make additional contributions (known as a complete or partial withdrawal liability) if a MEPP has unfunded vested benefits. These withdrawal liabilities, which would be triggered if the corporation ceases to make contributions to a MEPP with respect to one of more collective bargaining units, would equal the corporation s proportionate share of the unfunded vested benefits based on the year in which liability is triggered. The corporation believes that certain of the MEPPs in which we participate have unfunded vested benefits, and some are significantly underfunded. Withdrawal liability triggers could include the corporation s decision to close a plant or the dissolution of a collective bargaining unit. Due to uncertainty regarding future withdrawal liability triggers, we are unable to determine the amount and timing of the corporation s future withdrawal liability, if any, or whether the corporation s participation in these MEPPs could have any material adverse impact on its financial condition, results of operations or liquidity. Disagreements over potential withdrawal liability may lead to legal disputes. The corporation is currently involved in litigation with one MEPP and it is reasonably possible that the outcome of this litigation may result in an additional withdrawal liability of approximately $16 million.

The corporation s regular scheduled contributions to MEPPs totaled $49 million in 2009, $48 million in 2008 and $47 million in 2007. The corporation recognized charges for withdrawal liabilities of approximately $7 million in 2010 to date, $31 million in 2009, and an immaterial amount in 2008.

Repatriation of Foreign Earnings and Income Taxes

The corporation anticipates that it will continue to repatriate a portion of its foreign subsidiaries earnings. The projected tax expense associated with the anticipated return of the foreign earnings will be recognized as the amounts are earned. However, the corporation pays the tax liability upon completing the repatriation action.

At the end of 2009, the corporation had a deferred tax liability of approximately $12 million for future repatriation actions that had not yet been completed at the end of 2009 but will be completed in 2010. The corporation currently estimates that the tax expense of such repatriation actions associated with such 2009 earnings will be approximately $11 million.

The corporation currently estimates that the continuing operation s tax expense for the repatriation of a portion of 2010 and prior year foreign earnings to the U.S. will be approximately $146 million, with the majority of these taxes expected to be paid after 2010. This amount includes a one-time tax charge in connection with the company s third quarter decision to no longer reinvest overseas earnings primarily attributable to existing overseas cash and the book value of the household and body care businesses.

Other income or losses generated by the business, as well as the impact of changes in foreign currency exchange rates, will impact the total amount of cash taxes paid in any period. If further repatriation actions are completed in 2010, the amount of cash taxes that are paid in 2010 could increase. Additional repatriation actions may occur in future periods and these actions will require additional cash tax payments. The funding of these tax payments will be made with cash generated from operations, dispositions and short-term borrowings.

Transformation/Accelerate Liabilities

The corporation has recognized amounts for transformation, Accelerate and other restructuring charges. At March 27, 2010, the corporation had recognized cumulative liabilities of approximately $109 million that relate primarily to future severance and other lease and contractual payments. These amounts will be paid when the obligation becomes due, and the corporation expects a significant portion of these amounts will be paid over the next twelve months.

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Guarantees

The corporation is a party to a variety of agreements under which it may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts entered into by the corporation, under which the corporation agrees to indemnify a third party against losses arising from a breach of representations and covenants related to such matters as title to assets sold, the collectibility of receivables, specified environmental matters, lease obligations assumed and certain tax matters. In each of these circumstances, payment by the corporation is conditioned on the other party making a claim pursuant to the procedures specified in the contract. These procedures allow the corporation to challenge the other party s claims. In addition, the corporation s obligations under these agreements may be limited in terms of time and/or amount, and in some cases the corporation may have recourse against third parties for certain payments made by the corporation. It is not possible to predict the maximum potential amount of future payments under certain of these agreements, due to the conditional nature of the corporation s obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the corporation under these agreements have not had a material effect on the corporation s business, financial condition or results of operations. The corporation believes that if it were to incur a loss in any of these matters, such loss would not have a material effect on the corporation s business, financial condition or results of operations.

The material guarantees for which the maximum potential amount of future payments can be determined include the corporation s contingent liability on leases on property operated by others which is described above, and the corporation s guarantees of certain third-party debt. These debt guarantees require the corporation to make payments under specific debt arrangements in the event that the third parties default on their debt obligations. The maximum potential amount of future payments that the corporation could be required to make in the event that these third parties default on their debt obligations is approximately $14 million. At the present time, the corporation does not believe it is probable that any of these third parties will default on the amount subject to guarantee.

In the third quarter of 2010, the corporation recognized a $15 million charge for a tax indemnification related to the corporation s direct selling businesses that were divested in 2006.

As expected, in October 2009, the Spanish tax administration upheld the challenge made by its local field examination team against tax positions taken by the corporation s Spanish subsidiaries. In November 2009, the corporation filed an appeal against this claim with the Spanish Tax Court. In April 2010, the Spanish Chief Inspector upheld a portion of the claim raised by the Spanish tax authorities, which the corporation will appeal. The corporation believes it is adequately reserved for the claim upheld by the Spanish Chief Inspector. However, in order to continue its appeal, the corporation anticipates obtaining a bank guarantee in 2010 for up to $135 million as security against all allegations. The corporation is disputing the challenge in further proceedings with the Spanish tax authorities.

Risk Management

The corporation maintains risk management control systems to monitor the foreign exchange, interest rate and commodity risks, and the corporation s offsetting hedge positions. The corporation utilizes derivative instruments to create offsetting hedge positions and accounts for these instruments under either the hedge accounting model or the mark-to-market accounting model. The corporation utilizes the mark-to-market accounting model for certain of these derivative instruments and the change in fair value of derivatives that are accounted for under the mark-to-market accounting model are reported in earnings each period, which can lead to increased volatility in reported earnings.

As outlined in the corporation s 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission, the corporation s control systems use analytical techniques including market value, sensitivity analysis and value at risk estimations. The value at risk estimations shown in the table below, which includes risks for the entire corporation, are intended to measure the maximum amount the corporation could lose from adverse market movements in interest rates and foreign exchange rates for a one-day period at a 95% confidence level.

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(In millions)	Amounts	Average	Time Interval	Confidence Level
Value at Risk Amounts				
Third quarter 2010				
Interest rates	$ 9	$ 13	1 day	95%
Foreign exchange	22	23	1 day	95
Year End 2009				
Interest rates	$ 26	$ 29	1 day	95%
Foreign exchange	29	43	1 day	95

Interest rate value at risk decreased over 2009 due to the general decrease in short term rate volatilities as the financial markets have continued to stabilize over the course of 2010. Decreases in foreign exchange value at risk amounts in 2010 were primarily due to decreased levels of volatilities in exchange rates between the U.S. dollar and the euro and pound sterling.

Sensitivity Analysis For commodity derivative instruments held, the corporation utilizes a sensitivity analysis technique to evaluate the effect that changes in the market value of commodities will have on the corporation s commodity derivative instruments. This analysis includes the commodity derivative instruments and, thereby, does not consider the fair value change in the underlying exposure. At the end of the third quarter of 2010 and the end of 2009, the potential change in fair value of commodity derivative instruments, assuming a 10% change in the underlying commodity price, was $4 million and $13 million, respectively.

Significant Accounting Policies and Critical Estimates

The corporation s significant accounting policies are discussed in the Notes to the Consolidated Financial Statements that are incorporated in the 2009 Annual Report on Form 10-K that is filed with the Securities and Exchange Commission. The accounting policies and estimates that can have a significant impact upon the operating results, financial position and footnote disclosures of the corporation are described in the Financial Review in the corporation s 2009 Annual Report on Form 10-K.

Issued but not yet Effective Accounting Standards

A summary of new accounting pronouncements issued, but not yet effective, which are relevant to the operations of the corporation are summarized below.

Employers Disclosures about Postretirement Benefit Plan Assets In December 2008, new accounting guidance was issued that expands the disclosure requirements about plan assets for pension plans, postretirement medical plans, and other funded postretirement plans. Specifically, the rules require disclosure of: i) how investment allocation decisions are made by management; ii) major categories of plan assets; iii) significant concentrations of credit risk within plan assets; iv) the level of the fair value hierarchy in which the fair value measurements of plan assets fall (i.e. level 1, level 2 or level 3); v) information about the inputs and valuation techniques used to measure the fair value of plan assets; and vi) a reconciliation of the beginning and ending balances of plan assets valued with significant unobservable inputs (i.e. level 3 assets). The reconciliation of level 3 assets shall be broken out by realized gains/losses, unrealized gains/losses, purchases, sales, accounting settlements, and transfers of assets in and out of the level 3 category. This new guidance is required to be adopted by the corporation in 2010. The corporation does not expect the adoption to have a material impact on the Consolidated Financial Statements.

Revenue Arrangements with Multiple Deliverables In September 2009, new accounting guidance was issued concerning accounting for revenue arrangements with multiple deliverables. The guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately. It also eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize a portion of the overall arrangement fee that is attributable to items that have already been delivered. The guidance also establishes a selling price hierarchy for

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determining the selling price of a deliverable and expands disclosures for multiple-deliverable revenue arrangements. The new guidance is required to be adopted by the corporation for revenue arrangements entered into or materially modified at the beginning of 2011. The corporation is currently evaluating the provisions of this guidance and has not determined the impact of adoption at this time.

Consolidation of Variable Interest Entities In June 2009, the FASB issued an update to the guidance for determining whether an entity is a variable interest entity (VIE) and who is the primary beneficiary of the VIE. The new guidance will also require ongoing reassessments of the primary beneficiary of a VIE and new expanded disclosures surrounding the nature of the VIE and an entity s involvement with the VIE. The new guidelines are effective for the corporation in the first quarter of 2011. The corporation is currently evaluating the provisions of this guidance and has not determined the impact of adoption at this time.

Forward-Looking Information

This document contains certain forward-looking statements, including the anticipated costs and benefits of restructuring, transformation and Project Accelerate actions, access to credit markets and the corporation s credit ratings, the planned extinguishment of debt, the funding of pension plans, potential payments under guarantees and amounts due under future contractual obligations and commitments, projected capital expenditures, cash tax payments, pension settlement amounts and effective tax rates. In addition, from time to time, in oral statements and written reports, the corporation discusses its expectations regarding the corporation s future performance by making forward-looking statements preceded by terms such as expects, projects, anticipates or believes. These forward-looking statements are based on currently available competitive, financial and economic data, as well as management s views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. Consequently, the corporation wishes to caution readers not to place undue reliance on any forward-looking statements. Among the factors that could cause Sara Lee s actual results to differ from such forward-looking statements are factors relating to:

Sara Lee s share repurchase and other capital plans, such as (i) future opportunities that the Board may determine present greater potential value to shareholders than the current capital plans and targets, including without limitation potential acquisitions, joint ventures or other corporate transactions, and investments in Sara Lee s business; (ii) future operating or capital needs that require a more significant outlay of cash than currently anticipated; or (iii) future changes in facts or circumstances that may impact the anticipated accounting treatment described in our press release and other public disclosures regarding our capital plan;

Sara Lee s relationship with its customers, such as (iv) a significant change in Sara Lee s business with any of its major customers, such as Walmart, its largest customer, including changes in how such customers manage their suppliers and the level of inventory these customers maintain; and (v) credit and other business risks associated with customers operating in a highly competitive retail environment;

The consumer marketplace, such as (vi) significant competition, including advertising, promotional and price competition; (vii) changes in consumer behavior due to economic conditions, such as a shift in consumer demand toward private label; (viii) fluctuations in the cost of raw materials, Sara Lee s ability to increase or maintain product prices in response to fluctuations in cost and the impact on Sara Lee s profitability; (ix) the impact of various food safety issues and regulations on sales and profitability of Sara Lee products; and (x) inherent risks in the marketplace associated with new product introductions, including uncertainties about trade and consumer acceptance;

Sara Lee s international operations, such as (xi) impacts on reported earnings from fluctuations in foreign currency exchange rates, particularly the European euro; (xii) Sara Lee s generation of a high percentage of its revenues from businesses outside the United States and costs to remit these foreign earnings into the United States to fund Sara Lee s domestic operations, share repurchase plans and corporate costs; (xiii) the impact on Sara Lee s business of its receipt of binding offers to purchase a large portion of its H&BC business, its intent to divest the remainder of that business and the scope, timing and possibility of non-completion of such divestitures; and (xiv) Sara Lee s ability to continue to source production and conduct manufacturing and selling operations in various countries due to changing business conditions, political environments, import quotas and the financial condition of suppliers;

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Previous business decisions, such as (xv) Sara Lee s ability to generate margin improvement through cost reduction and efficiency initiatives, including Project Accelerate and the outsourcing of significant portions of our financial transaction processing, global IT, and global indirect procurement activities; (xvi) Sara Lee s ability to achieve planned cash flows from capital expenditures and acquisitions and the impact of changing interest rates and the cost of capital on the discounted value of those planned cash flows, which could impact future impairment analyses; (xvii) credit ratings issued by the three major credit rating agencies, the impact of Sara Lee s capital plans and targets on such credit ratings and the impact these ratings and changes in these ratings may have on Sara Lee s cost to borrow funds, access to capital/debt markets, and ability to complete the planned share repurchase; (xviii) Sara Lee s plan to refinance significant outstanding indebtedness in the next two years and the impact of potential changes in the credit environment; (xix) Sara Lee s plan to repurchase a significant amount of its common stock and the impact of such repurchases on its earnings, cash flow and credit ratings; (xx) the settlement of a number of ongoing reviews of Sara Lee s income tax filing positions in various jurisdictions and inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which Sara Lee transacts business; and (xxi) changes in the expense for and contingent liabilities relating to multi-employer pension plans in which Sara Lee participates.

In addition, Sara Lee s results may also be affected by general factors, such as economic conditions, political developments, interest and inflation rates, accounting standards, taxes and laws and regulations in markets where the corporation competes. Sara Lee undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports the corporation files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the corporation s management, including its Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure based on management s interpretation of the definition of disclosure controls and procedures, in Rules 13a-15(e) and 15d-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

Sara Lee s Chief Executive Officer and Chief Financial Officer, with assistance from other members of management, evaluated the effectiveness of Sara Lee s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q (the Evaluation Date) and, based upon such evaluation, have concluded that as of the Evaluation Date, the corporation s disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the last fiscal quarter there have been no changes in the corporation s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the corporation s internal control over financial reporting.

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PART II

ITEM 1A RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 27, 2009.

ITEM 2(c) REPURCHASES OF EQUITY SECURITIES BY THE ISSUER

Issuer Purchases of Equity Securities

The following table outlines Sara Lee s purchases of shares of its common stock during the third quarter of 2010.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number and Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)		
Dec. 27, 2009 to Jan. 30, 2010				13,459,121	$	1.0 billion
Jan. 31, 2010 to Feb. 27, 2010				13,459,121	$	3.0 billion
Feb. 28 , 2010 to Mar. 27, 2010	36,416,606	13.73	36,416,606	13,459,121	$	2.5 billion
Total	36,416,606	13.73	36,416,606	13,459,121	$	2.5 billion

(1) Sara Lee has two continuing stock repurchase programs under which it may repurchase shares of common stock in either open market or private transactions. With respect to the first program, Sara Lee announced on August 4, 2005 that its Board of Directors had increased the number of shares authorized under this program by an additional 100 million shares. As of March 27, 2010, 13.5 million shares remain authorized for repurchase under this program. With respect to the second program, Sara Lee announced on September 25, 2009 that its Board of Directors had authorized a $1.0 billion share repurchase program and on February 16, 2010 its Board of Directors had increased this repurchase program by $2.0 billion shares (for a total authorization of $3.0 billion shares). As of March 27, 2010, $500 million of shares have been repurchased under this program. There is no expiration date for either program.

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ITEM 6 EXHIBITS

The Exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit Number	Description
10.1	Severance Plans for Corporate Officers, as amended
10.2	Letter agreement dated March 1, 2001 between Sara Lee Corporation and Goldman, Sachs & Co. with respect to an accelerated share repurchase transaction; amendment to the letter agreement
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.1	Sections of the Sara Lee Corporation Quarterly Report on Form 10-Q for the quarter ended March 27, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Common Stockholders Equity; (iv) Consolidated Statements of Cash Flows; (v) Notes to Consolidated Financial Statements, tagged in block text; and (vi) document and entity information.

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SIGNATURE

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.

SARA LEE CORPORATION
(Registrant)

By: /s/ Mark A. Garvey
Mark A. Garvey
Senior Vice President, Global Business

Services and Corporate Controller

DATE: May 6, 2010