HORMEL FOODS CORP /DE/
Form 10-Q
September 07, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended July 29, 2007

Commission File Number 1-2402

HORMEL FOODS CORPORATION

Incorporated Under the Laws of the State of Delaware

I.R.S. Employer Identification No. #41-0319970

1 Hormel Place

Austin, Minnesota 55912-3680

Telephone - (507) 437-5611

None

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Class	**Outstanding at September 2, 2007**	
Common Stock	$.0586 par value	136,528,125
Common Stock Non-Voting	$.01 par value	-0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	July 29, 2007 (Unaudited)	October 29, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 104,504	$ 172,485
Accounts receivable	323,522	341,916
Inventories	659,223	570,932
Federal income taxes	4,141	0
Deferred income taxes	51,563	48,535
Prepaid expenses and other current assets	14,689	7,803
TOTAL CURRENT ASSETS	1,157,642	1,141,671
DEFERRED INCOME TAXES	11,476	7,387
GOODWILL	550,060	550,706
OTHER INTANGIBLES	142,211	147,975
NET PENSION ASSETS	59,984	66,097
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	102,341	76,684
OTHER ASSETS	163,677	158,976
PROPERTY, PLANT AND EQUIPMENT		
Land	48,077	46,854
Buildings	594,058	562,949
Equipment	1,152,469	1,110,315
Construction in progress	129,694	123,608
	1,924,298	1,843,726
Less allowance for depreciation	(987,495)	(932,916)
	936,803	910,810
TOTAL ASSETS	$ 3,124,194	$ 3,060,306

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	July 29, 2007 (Unaudited)	**October 29, 2006**
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 261,800	$ 271,358
Notes payable/short-term debt	10,000	0
Accrued expenses	34,269	27,103
Accrued workers compensation	29,219	27,895
Accrued marketing expenses	73,311	68,503
Employee compensation	96,232	107,332
Taxes, other than federal income taxes	2,622	7,784
Dividends payable	20,691	19,361
Federal income taxes	0	55,312
Current maturities of long-term debt	60	366
TOTAL CURRENT LIABILITIES	528,204	585,014
LONG-TERM DEBT less current maturities	350,013	350,054
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION	271,519	271,240
OTHER LONG-TERM LIABILITIES	50,870	51,086
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value $.0586 a share authorized 400,000,000 shares; issued 136,709,732 shares July 29, 2007 issued 137,639,954 shares October 29, 2006	8,011	8,066
Additional paid-in capital	0	2,507
Accumulated other comprehensive loss	(17,910)	(17,996)
Retained earnings	1,933,487	1,821,202
	1,923,588	1,813,779
Shares held in treasury 300,000 shares October 29, 2006	0	(10,867)
TOTAL SHAREHOLDERS INVESTMENT	1,923,588	1,802,912
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 3,124,194	$ 3,060,306

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

	Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Net sales	$ 1,520,005	$ 1,406,894	$ 4,528,685	$ 4,188,172
Cost of products sold	1,196,624	1,084,740	3,499,981	3,181,544
GROSS PROFIT	323,381	322,154	1,028,704	1,006,628
Expenses:				
Selling and delivery	187,823	187,387	578,974	566,886
Administrative and general	41,231	40,028	123,574	138,062
TOTAL EXPENSES	229,054	227,415	702,548	704,948
Equity in earnings of affiliates	1,212	10	2,084	3,710
OPERATING INCOME	95,539	94,749	328,240	305,390
Other income and expense:				
Interest and investment income (loss)	1,373	(661)	6,078	3,232
Interest expense	(6,633)	(6,555)	(19,989)	(19,191)
EARNINGS BEFORE INCOME TAXES	90,279	87,533	314,329	289,431
Provision for income taxes	32,905	27,982	113,629	93,296
NET EARNINGS	$ 57,374	$ 59,551	$ 200,700	$ 196,135
NET EARNINGS PER SHARE:				
BASIC	$ 0.42	$ 0.43	$ 1.46	$ 1.42
DILUTED	$ 0.41	$ 0.43	$ 1.44	$ 1.41
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	137,447	137,913	137,574	137,906
DILUTED	139,414	139,684	139,564	139,562
DIVIDENDS DECLARED PER SHARE:	$ 0.15	$ 0.14	$ 0.45	$ 0.42

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

	Nine Months Ended July 29, 2007	July 30, 2006
OPERATING ACTIVITIES		
Net earnings	$ 200,700	$ 196,135
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	85,082	81,661
Amortization of intangibles	8,645	8,035
Equity in earnings of affiliates	(3,186)	(3,308)
Provision for deferred income taxes	(3,239)	(5,063)
Loss (Gain) on property/equipment sales and plant facilities	617	(741)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	23,926	12,964
Increase in inventories, prepaid expenses, and other current assets	(97,152)	(47,568)
Decrease (Increase) in net pension assets	6,113	(27,277)
(Decrease) in accounts payable and accrued expenses	(72,242)	(57,927)
Other	7,333	11,469
NET CASH PROVIDED BY OPERATING ACTIVITIES	156,597	168,380
INVESTING ACTIVITIES		
Sale of available-for-sale securities	527,857	153,650
Purchase of available-for-sale securities	(527,857)	(122,260)
Acquisitions of businesses/intangibles	(13,620)	(75,013)
Purchases of property/equipment	(96,602)	(107,678)
Proceeds from sales of property/equipment	5,866	4,714
(Increase) Decrease in investments, equity in affiliates, and other assets	(24,751)	542
Dividends from affiliates	730	811
NET CASH USED IN INVESTING ACTIVITIES	(128,377)	(145,234)
FINANCING ACTIVITIES		
Proceeds from short-term debt	25,000	80,000
Principal payments on short-term debt	(17,576)	(40,000)
Principal payments on long-term debt	(6,322)	(353)
Dividends paid on common stock	(60,524)	(56,515)
Share repurchase	(47,982)	(12,809)
Other	11,203	7,674
NET CASH USED IN FINANCING ACTIVITIES	(96,201)	(22,003)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(67,981)	1,143
Cash and cash equivalents at beginning of year	172,485	131,046
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 104,504	$ 132,189

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

NOTE A GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 29, 2006, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended October 29, 2006.

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

Income Taxes

The effective tax rate for the third quarter and first nine months of fiscal 2007 was 36.4 and 36.1 percent, respectively, compared to 32.0 and 32.2 percent for the comparable periods of fiscal 2006. The higher rate for both the quarter and nine months of 2007 primarily reflects the impact of discrete events related to unfavorable prior period audits, while the fiscal 2006 rates were reduced by discrete benefits related to the favorable settlement of various state and federal tax audits. The lower nine month rate for fiscal 2006 also reflects a discrete item recorded in the first quarter for the tax benefit related to a Medicare subsidy created under the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. Currently, the Company provides a standby letter of credit for obligations of an affiliated party that may arise under worker compensation claims. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. Total guarantees provided by the Company, as of July 29, 2007, amounted to $1,940. These potential obligations are not reflected in the Company s consolidated statements of financial position.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). The pronouncement requires the funded status of a plan, measured as the difference between the fair value of plan assets and the benefit obligation, be recognized on a plan sponsor s statement of financial position. It also requires gains or losses that arise during the plan year to be recognized as a component of other comprehensive income to the extent they are not recognized in net periodic benefit cost during the year. These provisions are effective for fiscal years ending after December 15, 2006. For fiscal years ending after December 15, 2008, the pronouncement further requires plan sponsors to measure defined benefit plan assets and obligations as of the date of the plan sponsor s fiscal year-end statement of financial position. The Company will adopt the required provisions of this statement for

the fiscal 2007 year end. Based on the information available as of July 29, 2007, the Company expects adoption of this statement to result in an increase in net pension assets of approximately $15,500, an increase in deferred income tax assets of approximately $37,800, an increase in liabilities of approximately $114,300, and an increase in accumulated other comprehensive loss of approximately $61,000.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and therefore the Company expects to adopt FIN 48 at the beginning of fiscal 2008. The Company is currently assessing the impact of this accounting standard.

NOTE B ACQUISITIONS

On November 10, 2006, the Company acquired the assets of Saag s Products, Inc. (Saag s) for a preliminary purchase price of $12,997 in cash, plus the assumption of certain liabilities. Saag s is based in San Leandro, California, and is a processor and marketer of branded, premium quality gourmet sausages and specialty smoked meats. The acquisition provides opportunities to expand the Company s production capacity, and to enhance the product portfolio within the Refrigerated Foods segment. The purchase price is preliminary pending the accrual of potential earn-outs that may be earned over the five year period following the acquisition.

On December 15, 2006, the Company completed the acquisition of Provena Foods Inc. (Provena). Provena was a publicly traded company based in Chino, California, and provides pepperoni and pasta to pizza makers and packaged food manufacturers. Under the terms of the agreement, each outstanding share of Provena common stock was converted into 0.08 shares of Hormel Foods Corporation common stock, resulting in the issuance of 287,473 shares of the Company s common stock at $38.12 per share. The transaction has a total value of $11,653 in cash and stock, plus the assumption of various liabilities. The acquisition strengthens the capabilities of the Refrigerated Foods segment by providing additional production capacity.

Operating results for each acquisition above are included in the Company s consolidated statements of operations from the date of acquisition. Pro forma results are not presented as the acquisitions are not considered material, individually or in the aggregate, to the consolidated Company.

On August 23, 2007, subsequent to the end of the third quarter, the Company acquired privately-held Burke Corporation for a preliminary purchase price of $110,000 in cash. Burke Corporation is a manufacturer and marketer of pizza toppings and other fully cooked meat products, and operates facilities in Nevada, Iowa and Ames, Iowa. These facilities will increase production capabilities for the Refrigerated Foods segment, and should enable growth in the pizza toppings category by expanding the Company s product offerings to foodservice customers.

NOTE C STOCK-BASED COMPENSATION

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

During the first quarter of fiscal 2007, the Company made a one-time grant of 100 stock options to each active, full-time employee of the Company on January 8, 2007. This grant vests upon the earlier of five years or attainment of a closing stock price of $50.00 per share for five consecutive trading days, and expires ten years after the grant date.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 29, 2007, and changes during the nine months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at 10/29/06	8,823	$ 24.81		
Granted	2,985	37.92		
Exercised	(578)	16.67		
Forfeitures	(94)	37.04		
Outstanding at 7/29/07	11,136	$ 28.65	6.5 years	$ 79,258
Exercisable at 7/29/07	6,306	$ 23.72	4.8 years	$ 71,114

The weighted-average grant date fair value of stock options granted, and the total intrinsic value of options exercised during the three and nine months of fiscal years 2007 and 2006, is as follows:

	Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Weighted-average grant date fair value	N/A	N/A	$ 9.41	$ 9.25
Intrinsic value of exercised options	$ 2,701	$ 4,521	$ 12,503	$ 14,317

The fair value of each ordinary option award is calculated on the date of grant using the Black-Scholes valuation model. The fair value of the one-time option award made to all active, full-time employees during the first quarter of fiscal 2007 was calculated using a lattice-based model due to the inclusion of the performance condition that could accelerate vesting. No options were granted in the three month periods ended July 29, 2007, or July 30, 2006. Weighted-average assumptions used in calculating the fair value of options granted during the first nine months of fiscal years 2007 and 2006 are as follows:

	Nine Months Ended July 29, 2007	July 30, 2006
Risk-Free Interest Rate	4.6 %	4.5 %
Dividend Yield	1.6 %	1.7 %
Stock Price Volatility	21.0 %	21.0 %
Expected Option Life	7 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company s Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for ordinary options grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee groups. For the valuation of the one-time options grant made during the first quarter of fiscal 2007, the Company assumed early exercise behavior for a portion of the employee population.

The Company s nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of July 29, 2007, and changes during the nine months then ended, is as follows:

	Shares	**Weighted-Average Grant-Date Fair Value**
Nonvested at 10/29/06	99	$ 32.16
Granted	28	37.92
Vested	(55)	33.14
Nonvested at 7/29/07	72	$ 33.62

No nonvested shares were granted or vested in the three month periods ended July 29, 2007, or July 30, 2006. The weighted-average grant date fair value of nonvested shares granted, the total fair value of nonvested shares granted, and the fair value of shares that have vested during the first nine months of fiscal years 2007 and 2006, is as follows:

	Nine Months Ended July 29, 2007	**July 30, 2006**
Weighted-average grant date fair value	$ 37.92	$ 33.35
Fair value of nonvested shares granted	$ 1,043	$ 2,543
Fair value of shares vested	$ 1,813	$ 2,959

Stock-based compensation expense, along with the related income tax benefit, for the three and nine months of fiscal years 2007 and 2006 is presented in the table below. The expense for the three and nine months of fiscal 2007 includes $402 and $2,587, respectively, related to the one-time grant of 100 stock options to all active, full-time employees during the first quarter.

	Three Months Ended July 29, 2007	**July 30, 2006**	**Nine Months Ended July 29, 2007**	**July 30, 2006**
Stock-based compensation expense recognized	$ 2,779	$ 2,098	$ 12,845	$ 16,595
Income tax benefit recognized	(1,056)	(786)	(4,882)	(6,221)
After-tax stock-based compensation expense	$ 1,723	$ 1,312	$ 7,963	$ 10,374

At July 29, 2007, there was $20,092 of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 3.1 years. During the quarter and nine months ended July 29, 2007, cash received from stock option exercises was $1,037 and $5,408, compared to $1,435 and $3,661 for the quarter and nine months ended July 30, 2006. The total tax benefit to be realized for tax deductions from these option exercises for the quarter and nine months ended July 29, 2007, was $1,027 and $4,753, respectively, compared to $1,695 and $6,581 in the comparable periods in fiscal 2006. The amounts reported for tax deductions for option exercises in the quarter and nine months ended July 29, 2007, include $742 and $4,330, respectively, of excess tax benefits compared to $1,656 and $4,149, respectively, of excess tax benefits last year, which are included in Other under financing activities on the Consolidated Statements of Cash Flows (with an offsetting amount in other operating activities).

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

NOTE D **GOODWILL AND INTANGIBLE ASSETS**

There were no changes in the carrying amount of goodwill for the three months ended July 29, 2007. Changes in the carrying amount of goodwill for the nine months ended July 29, 2007, are presented in the table below. Goodwill acquired relates to the acquisition of Saag s, while the purchase adjustments relate primarily to the Valley Fresh acquisition. The reclassification in 2007 represents the movement of the Dan s Prize operating segment from All Other to Refrigerated Foods. See additional discussion in Note K.

	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of October 29, 2006	$ 124,367	$ 25,956	$ 203,214	$ 194,817	$ 2,352	$ 550,706
Goodwill acquired		525				525
Purchase adjustments	(1,003)	(76)		(92)		(1,171)
Reclassifications		1,678			(1,678)	
Balance as of July 29, 2007	$ 123,364	$ 28,083	$ 203,214	$ 194,725	$ 674	$ 550,060

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented below. Intangible assets with a gross carrying value of $2,041 were added during the first nine months of 2007 related to the acquisitions of Saag s and Provena.

	July 29, 2007		October 29, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete covenants	$ 18,630	$ (13,011)	$ 19,310	$ (11,103)
Formulas and recipes	18,415	(8,773)	20,875	(9,574)
Proprietary software and technology	17,890	(5,497)	17,040	(3,831)
Customer lists/relationships	11,476	(3,969)	11,300	(3,093)
Distribution network	4,120	(1,612)	3,700	(1,303)
Purchase and supply agreements	2,140	(2,104)	2,460	(2,096)
Other intangibles	8,267	(3,744)	7,992	(2,845)
Total	$ 80,938	$ (38,710)	$ 82,677	$ (33,845)

Amortization expense was $2,782 and $8,645 for the three and nine months ended July 29, 2007, respectively, compared to $3,078 and $8,035 for the three and nine months ended July 30, 2006. Estimated annual amortization expense for the five fiscal years after October 29, 2006, is as follows:

2007	$ 11,440
2008	8,449
2009	6,769
2010	5,943
2011	5,086

The carrying amounts for indefinite-lived intangible assets are presented in the table below. The increase in 2007 represents trademarks acquired from Saag s.

	July 29, 2007	October 29, 2006
Brands/tradenames/trademarks	$ 91,999	$ 91,159
Other intangibles	7,984	7,984
Total	$ 99,983	$ 99,143

NOTE E **SHIPPING AND HANDLING COSTS**

Shipping and handling costs are recorded as selling and delivery expenses. Shipping and handling costs were $99,938 and $303,901 for the three and nine months ended July 29, 2007, respectively, compared to $101,019 and $300,705 for the three and nine months ended July 30, 2006.

NOTE F **EARNINGS PER SHARE DATA**

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

	Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Basic weighted-average shares outstanding	137,447	137,913	137,574	137,906
Net effect of dilutive stock options	1,967	1,771	1,990	1,656
Diluted weighted-average shares outstanding	139,414	139,684	139,564	139,562

NOTE G **COMPREHENSIVE INCOME**

Components of comprehensive income, net of taxes, are:

	Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Net earnings	$ 57,374	$ 59,551	$ 200,700	$ 196,135
Other comprehensive income (loss):				
Unrealized (loss) gain on available-for- sale securities		516	(381)	516
Deferred loss on hedging	(2,112)	(1,876)	(6,922)	(3,859)
Reclassification adjustment into net earnings	1,060	242	2,778	(998)
Foreign currency translation	2,838	(1,526)	4,611	1,372
Other comprehensive income (loss)	1,786	(2,644)	86	(2,969)
Total comprehensive income	$ 59,160	$ 56,907	$ 200,786	$ 193,166

NOTE H **INVENTORIES**

Principal components of inventories are:

	July 29, 2007	October 29, 2006
Finished products	$ 350,314	$ 308,509
Raw materials and work-in-process	191,323	153,189
Materials and supplies	117,586	109,234
Total	$ 659,223	$ 570,932

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NOTE I **DERIVATIVES AND HEDGING**

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

Cash Flow Hedge: The Company from time to time utilizes corn and soybean meal futures to offset the price fluctuation in the Company s future direct grain purchases, and has entered into various NYMEX-based swaps to hedge the purchase of natural gas at certain plant locations. The Company also utilizes currency futures contracts to reduce its exposure to fluctuations in foreign currencies for certain foreign-denominated transactions. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported as other comprehensive income (loss) and reclassified into earnings, through cost of products sold (commodity positions) or net sales (currency futures), in the period or periods in which the hedged transactions affect earnings. The Company typically does not hedge its grain and currency exposure beyond 24 months and its natural gas exposure beyond 36 months.

As of July 29, 2007, the Company has included in Accumulated other comprehensive loss, hedging losses of $5,606 (net of tax) relating to its positions. The Company expects to recognize the majority of these losses over the next 12 months. Losses in the amount of $1,688 and $4,446, before tax, were reclassified into earnings in the three and nine months ending July 29, 2007, respectively, compared to losses of $397 and gains of $1,582, before tax, in the three and nine months ended July 30, 2006. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

Fair Value Hedge: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery.

The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the statement of financial position as a current asset and liability, respectively. Gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings.

As of July 29, 2007, the fair value of the Company s futures contracts included on the statement of financial position was $(1,667). Losses on closed futures contracts in the amount of $919 and $14,224, before tax, were recognized in earnings during the three and nine months ended July 29, 2007, compared to losses on closed futures contracts of $(665) and gains of $1,620, before tax, in the same periods of fiscal 2006. There were no gains or losses recognized into earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

NOTE J PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Net periodic benefit cost for pension and other postretirement benefit plans consists of the following:

	Pension Benefits Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Service cost	$ 4,750	$ 5,365	$ 14,250	$ 16,360
Interest cost	10,638	10,063	31,913	30,275
Expected return on plan assets	(13,376)	(12,791)	(40,128)	(38,374)
Amortization of prior service cost	(29)	229	(87)	685
Recognized actuarial loss	1,466	2,358	4,398	7,236
Settlement charge	0	4,897	0	12,183
Net periodic cost	$ 3,449	$ 10,121	$ 10,346	$ 28,365

	Other Postretirement Benefits Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Service cost	$ 748	$ 874	$ 2,244	$ 2,624
Interest cost	5,767	5,409	17,301	16,226
Amortization of prior service cost	1,433	1,414	4,299	4,241
Recognized actuarial loss	922	883	2,767	2,650
Net periodic cost	$ 8,870	$ 8,580	$ 26,611	$ 25,741

The Company recognized an additional settlement charge of $4,897 in the third quarter of 2006 on non-qualified plans resulting from executive retirements. For the first nine months of fiscal 2006, settlement charges of $12,183 were recognized.

NOTE K SEGMENT REPORTING

The Company develops, processes, and distributes a wide array of food products in a variety of markets. Under the criteria set forth by the accounting standard SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and All Other.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results of Valley Fresh, Inc. (Valley Fresh) branded products, acquired in the second quarter of fiscal 2006.

The Refrigerated Foods segment includes the business units of Meat Products, Foodservice, and Saag s, acquired in November 2006. Clougherty Packing, LLC (Farmer John) is also an operating segment within Refrigerated Foods. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork products for retail, foodservice, and fresh product customers. This segment also includes the 51 percent owned Precept Foods, LLC joint venture, which offers fresh, case-ready, branded pork and beef products to its retail customers. The Foodservice business unit includes the results of operations for Provena (acquired in December 2006). Due to the similarity of operations, product lines, and common management structure, the Dan s Prize operating segment is also included in Refrigerated Foods beginning in fiscal 2007. Dan s Prize was previously reported in the All Other segment, and all prior year information has been reclassified to reflect this change.

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

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

The All Other segment includes the Hormel Foods International operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes various miscellaneous corporate sales. As noted above, this segment previously included Dan s Prize, which became an operating segment of Refrigerated Foods beginning in fiscal 2007.

Intersegment sales are recorded at prices that approximate cost and are eliminated in the consolidated statements of operations. Equity in earnings of affiliates is included in segment profit; however, the Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. These items are included below as Net interest and investment income and General corporate expense when reconciling to earnings before income taxes.

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

	Three Months Ended July 29, 2007	July 30, 2006	Nine Months Ended July 29, 2007	July 30, 2006
Net Sales to Unaffiliated Customers				
Grocery Products	$ 202,150	$ 199,545	$ 631,991	$ 604,457
Refrigerated Foods	825,285	756,611	2,419,596	2,230,977
Jennie-O Turkey Store	278,588	267,754	825,246	789,407
Specialty Foods	167,694	146,583	513,842	454,761
All Other	46,288	36,401	138,010	108,570
Total	$ 1,520,005	$ 1,406,894	$ 4,528,685	$ 4,188,172
Intersegment Sales				
Grocery Products	$	$	$	$
Refrigerated Foods	662	531	1,791	1,542
Jennie-O Turkey Store	25,802	20,643	70,442	57,659
Specialty Foods	47	59	123	168
All Other				
Total	$ 26,511	$ 21,233	$ 72,356	$ 59,369
Intersegment elimination	(26,511)	(21,233)	(72,356)	(59,369)
Total				