

HORMEL FOODS CORP /DE/  
Form 10-Q  
June 08, 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 April 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 ☒ NO ☐

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

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

Class	Outstanding at June 3, 2007	
Common Stock	\$.0586 par value	137,669,310
Common Stock Non-Voting	\$.01 par value	-0-



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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**HORMEL FOODS CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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(In Thousands of Dollars)

	April 29, 2007 (Unaudited)	October 29, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 93,998	\$ 172,485
Short-term marketable securities	13,775	0
Accounts receivable	322,634	341,916
Inventories	637,425	570,932
Deferred income taxes	52,654	48,535
Prepaid expenses and other current assets	18,380	7,803
<b>TOTAL CURRENT ASSETS</b>	<b>1,138,866</b>	<b>1,141,671</b>
<b>DEFERRED INCOME TAXES</b>	<b>10,724</b>	<b>7,387</b>
<b>GOODWILL</b>	<b>550,060</b>	<b>550,706</b>
<b>OTHER INTANGIBLES</b>	<b>145,059</b>	<b>147,975</b>
<b>NET PENSION ASSETS</b>	<b>61,767</b>	<b>66,097</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>94,632</b>	<b>76,684</b>
<b>OTHER ASSETS</b>	<b>164,506</b>	<b>158,976</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	48,951	46,854
Buildings	571,618	562,949
Equipment	1,152,517	1,110,315
Construction in progress	151,464	123,608
	1,924,550	1,843,726
Less allowance for depreciation	(980,728)	(932,916)
	943,822	910,810
<b>TOTAL ASSETS</b>	<b>\$ 3,109,436</b>	<b>\$ 3,060,306</b>

See notes to consolidated financial statements

## HORMEL FOODS CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	April 29, 2007 (Unaudited)	October 29, 2006
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 234,475	\$ 271,358
Accrued expenses	36,993	27,103
Accrued workers compensation	30,084	27,895
Accrued marketing expenses	76,579	68,503
Employee compensation	84,850	107,332
Taxes, other than federal income taxes	5,326	7,784
Dividends payable	20,725	19,361
Federal income taxes	26,543	55,312
Current maturities of long-term debt	71	366
<b>TOTAL CURRENT LIABILITIES</b>	<b>515,646</b>	<b>585,014</b>
<b>LONG-TERM DEBT less current maturities</b>	<b>350,020</b>	<b>350,054</b>
<b>ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION</b>	<b>271,519</b>	<b>271,240</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>54,562</b>	<b>51,086</b>
<b>SHAREHOLDERS' INVESTMENT</b>		
Preferred stock, par value \$.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value \$.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value \$.0586 a share authorized 400,000,000 shares; issued 137,616,109 shares April 29, 2007		
issued 137,639,954 shares October 29, 2006	8,064	8,066
Additional paid-in capital	6,037	2,507
Accumulated other comprehensive loss	(19,696)	(17,996)
Retained earnings	1,923,284	1,821,202
	1,917,689	1,813,779
Shares held in treasury 300,000 shares October 29, 2006	0	(10,867)
<b>TOTAL SHAREHOLDERS' INVESTMENT</b>	<b>1,917,689</b>	<b>1,802,912</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>	<b>\$ 3,109,436</b>	<b>\$ 3,060,306</b>

See notes to consolidated financial statements

**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Net sales	\$ 1,504,597	\$ 1,365,345	\$ 3,008,680	\$ 2,781,278
Cost of products sold	1,158,711	1,033,866	2,303,357	2,096,804
<b>GROSS PROFIT</b>	<b>345,886</b>	<b>331,479</b>	<b>705,323</b>	<b>684,474</b>
Expenses:				
Selling and delivery	192,507	187,474	391,151	379,499
Administrative and general	40,433	40,314	82,343	98,034
<b>TOTAL EXPENSES</b>	<b>232,940</b>	<b>227,788</b>	<b>473,494</b>	<b>477,533</b>
Equity in earnings of affiliates	(31 )	1,302	872	3,700
<b>OPERATING INCOME</b>	<b>112,915</b>	<b>104,993</b>	<b>232,701</b>	<b>210,641</b>
Other income and expense:				
Interest and investment income	2,625	3,009	4,705	3,893
Interest expense	(6,998 )	(6,404 )	(13,356 )	(12,636 )
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>108,542</b>	<b>101,598</b>	<b>224,050</b>	<b>201,898</b>
Provision for income taxes	40,541	34,290	80,724	65,314
<b>NET EARNINGS</b>	<b>\$ 68,001</b>	<b>\$ 67,308</b>	<b>\$ 143,326</b>	<b>\$ 136,584</b>
<b>NET EARNINGS PER SHARE:</b>				
BASIC	\$ 0.49	\$ 0.49	\$ 1.04	\$ 0.99
DILUTED	\$ 0.49	\$ 0.48	\$ 1.03	\$ 0.98
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
BASIC	137,743	137,906	137,638	137,902
DILUTED	139,711	139,559	139,639	139,502
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$ 0.15</b>	<b>\$ 0.14</b>	<b>\$ 0.30</b>	<b>\$ 0.28</b>

See notes to consolidated financial statements



**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands of Dollars)

(Unaudited)

	Six Months Ended April 29, 2007	April 30, 2006
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 143,326	\$ 136,584
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	56,779	54,746
Amortization of intangibles	5,863	4,957
Equity in earnings of affiliates	(1,466 )	(3,241 )
Provision for deferred income taxes	(3,013 )	(2,960 )
Loss on property/equipment sales and plant facilities	69	186
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	24,814	28,396
Increase in inventories, prepaid expenses, and other current assets	(73,348 )	(67,655 )
Decrease (Increase) in net pension assets	4,330	(2,592 )
Decrease in accounts payable and accrued expenses	(74,132 )	(59,870 )
Other	5,564	11,244
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>88,786</b>	<b>99,795</b>
<b>INVESTING ACTIVITIES</b>		
Sale of available-for-sale securities	284,850	145,125
Purchase of available-for-sale securities	(298,625 )	(106,625 )
Acquisitions of businesses/intangibles	(13,618 )	(74,777 )
Purchases of property/equipment	(69,961 )	(63,646 )
Proceeds from sales of property/equipment	2,824	2,201
Increase in investments, equity in affiliates, and other assets	(21,134 )	(1,573 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(115,664 )</b>	<b>(99,295 )</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term debt	15,000	40,000
Principal payments on short-term debt	(17,576 )	(5,000 )
Principal payments on long-term debt	(6,304 )	(337 )
Dividends paid on common stock	(39,881 )	(37,215 )
Share repurchase	(11,706 )	(12,723 )
Other	8,858	4,370
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(51,609 )</b>	<b>(10,905 )</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(78,487 )</b>	<b>(10,405 )</b>
Cash and cash equivalents at beginning of year	172,485	131,046
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 93,998</b>	<b>\$ 120,641</b>

See notes to consolidated financial statements

**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**

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The effective tax rate for the second quarter and first six months of fiscal 2007 was 37.4 and 36.0 percent, respectively, compared to 33.8 and 32.4 percent for the comparable periods of fiscal 2006. The higher rate is primarily due to a \$1,642 charge in the second quarter of 2007 for discrete events related to unfavorable prior period audits, while the second quarter rate in 2006 was reduced by a discrete benefit related to a favorable prior year audit settlement. The lower six 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 April 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, and is currently assessing the impact of adopting this accounting standard.

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 has not yet determined 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 preliminary value of \$11,651 in cash and stock, plus the assumption of various liabilities. The acquisition is expected to strengthen the capabilities of the Refrigerated Foods segment by providing additional production capacity. The transaction value is preliminary pending final appraisals.

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.

#### **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.

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at 10/29/06	8,823	\$ 24.81		
Granted	3,001	37.91		
Exercised	(449)	16.46		
Forfeitures	(2)	30.88		
Outstanding at 4/29/07	11,373	\$ 28.60	6.7 years	\$ 109,561
Exercisable at 4/29/07	6,435	\$ 23.60	5.0 years	\$ 93,840

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

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Weighted-average grant date fair value	\$ 11.28	\$ 9.55	\$ 9.40	\$ 9.25
Intrinsic value of exercised options	\$ 2,720	\$ 1,791	\$ 9,802	\$ 9,796

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. Weighted-average assumptions used in calculating the fair value of options granted during the three and six months of fiscal years 2007 and 2006 are as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Risk-Free Interest Rate	4.9 %	4.6 %	4.6 %	4.5 %
Dividend Yield	1.6 %	1.7 %	1.6 %	1.7 %
Stock Price Volatility	21.0 %	21.0 %	21.0 %	21.0 %
Expected Option Life	8 years	8 years	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.



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The Company's nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of April 29, 2007, and changes during the six 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 4/29/07	72	\$ 33.62

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 three and six months of fiscal years 2007 and 2006, is as follows:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Weighted-average grant date fair value	\$ 37.92	\$ 33.53	\$ 37.92	\$ 33.35
Fair value of nonvested shares granted	\$ 1,043	\$ 880	\$ 1,043	\$ 2,543
Fair value of shares vested	\$ 25	\$ 35	\$ 1,813	\$ 2,959

Stock-based compensation expense, along with the related income tax benefit, for the three and six months of fiscal years 2007 and 2006 is presented in the table below. The expense for the three and six months of fiscal 2007 includes \$423 and \$2,185, respectively, related to the one-time grant of 100 stock options to all active, full-time employees during the first quarter.

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Stock-based compensation expense recognized	\$ 2,802	\$ 2,387	\$ 10,066	\$ 14,497
Income tax benefit recognized	(1,065)	(895)	(3,826)	(5,435)
After-tax stock-based compensation expense	\$ 1,737	\$ 1,492	\$ 6,240	\$ 9,062

At April 29, 2007, there was \$22,614 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 3.3 years. During the quarter and six months ended April 29, 2007, cash received from stock option exercises was \$1,492 and \$4,371, compared to \$662 and \$2,226 for the quarter and six months ended April 30, 2006. The total tax benefit to be realized for tax deductions from these option exercises for the quarter and six months ended April 29, 2007, was \$1,034 and \$3,726, respectively, compared to \$671 and \$4,886 in the comparable periods in fiscal 2006. The amounts reported for tax deductions for option exercises in the quarter and six months ended April 29, 2007 include \$1,023 and \$3,588, respectively, of excess tax benefits compared to \$648 and \$2,493, 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**

The changes in the carrying amount of goodwill for the three and six month periods ended April 29, 2007, are presented in the tables below. Goodwill acquired in the quarter and six months relates to the acquisition of Saag s, while the purchase adjustments relate 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 January 28, 2007	\$ 124,371	\$ 27,561	\$ 203,214	\$ 194,817	\$ 674	\$ 550,637
Goodwill acquired		522				522
Purchase adjustments	(1,007 )			(92 )		(1,099 )
Balance as of April 29, 2007	\$ 123,364	\$ 28,083	\$ 203,214	\$ 194,725	\$ 674	\$ 550,060

	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 April 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 \$2,107 were added during the first six months of 2007 related to the acquisitions of Saag s and Provena.

	April 29, 2007 Gross Carrying Amount	Accumulated Amortization	October 29, 2006 Gross Carrying Amount	Accumulated Amortization
Non-compete covenants	\$ 18,630	\$ (12,042 )	\$ 19,310	\$ (11,103 )
Formulas & recipes	18,415	(8,220 )	20,875	(9,574 )
Proprietary software & technology	17,890	(4,942 )	17,040	(3,831 )
Customer lists/relationships	11,518	(3,678 )	11,300	(3,093 )
Distribution network	4,120	(1,509 )	3,700	(1,303 )
Purchase & supply agreements	2,140	(2,081 )	2,460	(2,096 )
Other intangibles	8,291	(3,456 )	7,992	(2,845 )
Total	\$ 81,004	\$ (35,928 )	\$ 82,677	\$ (33,845 )

Amortization expense was \$2,925 and \$5,863 for the three and six months ended April 29, 2007, respectively, compared to \$2,465 and \$4,957 for the three and six months ended April 30, 2006.

Estimated annual amortization expense for the five fiscal years after October 29, 2006, is as follows:

2007	\$ 11,466
2008	8,460
2009	6,776
2010	5,950
2011	5,093

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

	April 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 \$101,587 and \$203,963 for the three and six months ended April 29, 2007, respectively, compared to \$98,794 and \$199,686 for the three and six months ended April 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		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Basic weighted-average shares outstanding	137,743	137,906	137,638	137,902
Dilutive potential common shares	1,968	1,653	2,001	1,600
Diluted weighted-average shares outstanding	139,711	139,559	139,639	139,502

#### **NOTE G COMPREHENSIVE INCOME**

Components of comprehensive income, net of taxes, are:

	Three Months Ended		Six Months Ended	
	April 29, 2007	April 30, 2006	April 29, 2007	April 30, 2006
Net earnings	\$ 68,001	\$ 67,308	\$ 143,326	\$ 136,584
Other comprehensive (loss) income:				
Unrealized loss on available-for-sale securities			(381)	)
Deferred loss on hedging	(5,421)	(1,169)	(4,810)	(1,983)
Reclassification adjustment into net earnings	488	323	1,718	(1,240)
Foreign currency translation	459	1,219	1,773	2,898
Other comprehensive (loss) income	(4,474)	373	(1,700)	(325)
Total comprehensive income	\$ 63,527	\$ 67,681	\$ 141,626	\$ 136,259

**NOTE H**                      **INVENTORIES**

Principal components of inventories are:

	April 29, 2007	October 29, 2006
Finished products	\$ 342,953	\$ 308,509
Raw materials and work-in-process	183,474	153,189
Materials and supplies	110,998	109,234
Total	\$ 637,425	\$ 570,932

**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 April 29, 2007, the Company has included in Accumulated other comprehensive loss, hedging losses of \$4,555 (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 \$777 and \$2,759, before tax, were reclassified into earnings in the three and six months ending April 29, 2007, respectively, compared to losses of \$529 and gains of \$1,979, before tax, in the three and six months ended April 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 April 29, 2007, the fair value of the Company's futures contracts included on the statement of financial position was \$(5,159). Losses on closed futures contracts in the amount of \$5,353 and \$13,304, before tax, were recognized in earnings during the three and six months ended April 29, 2007, compared to gains of \$892 and \$2,285, 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.



**Other:** During the second quarter of fiscal 2007, the Company held certain futures contract positions as part of a merchandising program designed to enhance the margins of company-owned livestock. The Company has not applied hedge accounting to these positions. During the second quarter, the Company recorded a charge of \$128 through cost of products sold to record these contracts at their fair value. The merchandising program was closed by the end of the second quarter.

## **NOTE J PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

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

	<b>Pension Benefits</b>		<b>Six Months Ended</b>	
	<b>Three Months Ended</b>		<b>April 29, 2007</b>	<b>April 30, 2006</b>
	<b>April 29, 2007</b>	<b>April 30, 2006</b>		
Service cost	\$ 4,750	\$ 5,366	\$ 9,500	\$ 10,995
Interest cost	10,637	10,063	21,275	20,212
Expected return on plan assets	(13,376 )	(12,791 )	(26,752 )	(25,583 )
Amortization of prior service cost	(29 )	228	(58 )	456
Recognized actuarial loss	1,466	2,359	2,932	4,878
Settlement charge	0	0	0	7,286
Net periodic cost	\$ 3,448	\$ 5,225	\$ 6,897	\$ 18,244

	<b>Other Postretirement Benefits</b>		<b>Six Months Ended</b>	
	<b>Three Months Ended</b>		<b>April 29, 2007</b>	<b>April 30, 2006</b>
	<b>April 29, 2007</b>	<b>April 30, 2006</b>		
Service cost	\$ 748	\$ 875	\$ 1,496	\$ 1,750
Interest cost	5,767	5,408	11,534	10,817
Amortization of prior service cost	1,433	1,414	2,866	2,827
Recognized actuarial loss	923	884	1,845	1,767
Net periodic cost	\$ 8,871	\$ 8,581	\$ 17,741	\$ 17,161

The \$7,286 settlement charge recognized in the first six months of fiscal 2006 represented partial settlements on non-qualified plans resulting from executive retirements.

## **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, and Arriba Foods, Inc. (Mexican Accent).

The Refrigerated Foods segment includes the business units of Meat Products, Foodservice, and Saags, 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 Meat Products business unit includes the results of operations for Lloyd's Barbeque Company (Lloyd's), and 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. Diamond Crystal Brands includes the results of operations for Hormel HealthLabs and Mark-Lynn Foods Inc. (Mark-Lynn). Specialty Products also 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.



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

	Three Months Ended April 29, 2007	April 30, 2006	Six Months Ended April 29, 2007	April 30, 2006
<b>Sales to Unaffiliated Customers</b>				
Grocery Products	\$ 223,625	\$ 200,955	\$ 429,841	\$ 404,912
Refrigerated Foods	796,339	715,245	1,594,311	1,474,366
Jennie-O Turkey Store	270,044	254,607	546,658	521,653
Specialty Foods	169,069	157,016	346,148	308,178
All Other	45,520	37,522	91,722	72,169
Total	\$ 1,504,597	\$ 1,365,345	\$ 3,008,680	\$ 2,781,278
<b>Intersegment Sales</b>				
Grocery Products	\$ 0	\$ 0	\$ 0	\$ 0
Refrigerated Foods	839	460	1,129	1,011
Jennie-O Turkey Store	25,472	19,514	44,640	37,016
Specialty Foods	50	76	76	109
All Other	0	0	0	0
Total	\$ 26,361	\$ 20,050	\$ 45,845	\$ 38,136
Intersegment elimination	(26,361 )	(20,050 )	(45,845 )	(38,136 )
Total	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net Sales</b>				
Grocery Products	\$ 223,625	\$ 200,955	\$ 429,841	\$ 404,912
Refrigerated Foods	797,178	715,705	1,595,440	1,475,377
Jennie-O Turkey Store	295,516	274,121	591,298	558,669
Specialty Foods	169,119	157,092	346,224	308,287
All Other	45,520	37,522	91,722	72,169
Intersegment elimination	(26,361 )	(20,050 )	(45,845 )	(38,136 )
Total	\$ 1,504,597	\$ 1,365,345	\$ 3,008,680	\$ 2,781,278
<b>Segment Operating Profit</b>				
Grocery Products	\$ 39,194	\$ 30,615	\$ 72,178	\$ 63,384
Refrigerated Foods	44,187	35,933	86,129	74,644
Jennie-O Turkey Store	13,949	26,640	43,920	66,319
Specialty Foods	16,281	12,217	34,323	22,545
All Other	4,866	4,193	11,340	8,119
Total segment operating profit	\$ 118,477	\$ 109,598	\$ 247,890	\$ 235,011
Net interest and investment income	(4,373 )	(3,395 )	(8,651 )	(8,743 )
General corporate expense	(5,562 )	(4,605 )	(15,189 )	(24,370 )
Earnings before income taxes	\$ 108,542	\$ 101,598	\$ 224,050	\$ 201,898

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

**CRITICAL ACCOUNTING POLICIES**

There have been no material changes in the Company's Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the year ended October 29, 2006.

**RESULTS OF OPERATIONS**

**Overview**

The Company is a processor of branded and unbranded food products for retail, foodservice, and fresh product customers. It operates in five segments as described in Note K in the Notes to Consolidated Financial Statements in this Form 10-Q.

The Company earned \$0.49 per diluted share in the second quarter of fiscal 2007, compared to \$0.48 per diluted share in the second quarter of fiscal 2006. Significant factors impacting the quarter were:

- Strong net sales and tonnage growth was reported by all five segments of the Company.
- The Jennie-O Turkey Store segment reported significant operating profit declines, as pricing advances were unable to offset the impact of continued higher grain costs.
- Refrigerated Foods operating profits increased, primarily due to strong pork packer margins during the quarter.
- Grocery Products showed improved profit results, driven by strong growth in microwave trays and increased margins on chili sales.
- Specialty Foods experienced another excellent quarter, with continued net sales and operating profit growth in all three operating segments.

**Consolidated Results**

Net earnings for the second quarter of fiscal 2007 increased 1.0 percent to \$68,001 compared to \$67,308 in the same quarter of 2006. Diluted earnings per share for the quarter increased to \$0.49 from \$0.48 last year. Net earnings for the first six months of 2007 increased 4.9 percent to \$143,326 from \$136,584 in 2006. Diluted earnings per share for the same period increased 5.1 percent to \$1.03 from \$0.98 in the prior year.

Net sales for the second quarter of fiscal 2007 increased 10.2 percent to \$1,504,597 from \$1,365,345 in 2006. Tonnage volume increased 5.0 percent to 1,096 million lbs. for the second quarter compared to 1,044 million lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2007 increased 8.2 percent to \$3,008,680 from \$2,781,278 in the first six months of fiscal 2006. Tonnage volume for the six months increased 5.4 percent over the comparable period of 2006. Net sales and tonnage volume comparisons for the second quarter and six months were positively impacted by the second quarter 2006 acquisition of Valley Fresh, and the first quarter 2007 acquisitions of Saags and Provena. On a combined basis, these acquisitions contributed \$24,155 of net sales and 13.5 million lbs. of tonnage volume to the second quarter results and \$42,614 of net sales and 24.3 million lbs. of tonnage volume to the six month results. Excluding the impact of these acquisitions, net sales and tonnage volume showed increases of 8.4 percent and 3.7 percent, respectively, compared to the second quarter of fiscal 2006 and increases of 6.6 percent and 4.2 percent, respectively, compared to the first six months of last year.

Gross profit for the second quarter and six months of fiscal 2007 was \$345,886 and \$705,323, respectively, compared to \$331,479 and \$684,474 for the same periods last year. Gross profit as a percentage of net sales for the second quarter and six months decreased to 23.0 and 23.4 percent in 2007, from 24.3 and 24.6 percent for the comparable quarter and six months of fiscal 2006. The Company continued to struggle with significantly higher grain markets, with corn near the \$4.00/bushel level during the quarter. This impacted margins, most notably in the Jennie-O Turkey Store (JOTS) segment, where feed costs per ton were 37.3 percent higher than in the comparable quarter of fiscal 2006. Pricing advances were pursued during the quarter, but the higher costs could not be passed on as quickly or as thoroughly as anticipated. A rapid rise in meat values also pressured margins.



in the Refrigerated Foods segment during the second quarter. Value added growth and cost containment initiatives across all segments offset a portion of these increases, and additional pricing advances will be pursued in upcoming quarters. Although this should result in some margin improvement during the second half of fiscal 2007, JOTS operating margins are expected to remain below prior year levels, at least through the third quarter.

Selling and delivery expenses for the second quarter and six months of fiscal 2007 were \$192,507 and \$391,151, respectively, compared to \$187,474 and \$379,499 last year. This increase is primarily due to higher shipping and handling costs of \$2,793 and \$4,277 for the second quarter and six months, respectively, over the same periods in fiscal 2006. Although lower freight costs have provided some benefit in fiscal 2007, those gains have been more than offset by higher warehousing and brokerage expenses across all business segments. Increased stock option expense of approximately \$1,100 has also contributed to the six month increase over the prior year. Selling and delivery expenses as a percentage of net sales decreased to 12.8 and 13.0 percent for the fiscal 2007 second quarter and six months, respectively, compared to 13.7 and 13.6 percent of net sales in the comparable periods of 2006. Approximately \$2,500 was reflected in selling and delivery expense in the first quarter of fiscal 2006 related to settlements on non-qualified plans resulting from executive retirements. The Company's marketing investment also decreased slightly to 2.1 and 2.2 percent of net sales for the second quarter and six months, respectively, compared to 2.4 percent for both comparable periods of 2006. However, additional marketing initiatives in support of the Company's brands and new product introductions are planned for the second half of the fiscal year. The Company expects selling and delivery expenses, as a percentage of net sales, to approximate 13.1 percent for fiscal year 2007.

Administrative and general expenses were \$40,433 and \$82,343 for the second quarter and six months, respectively, compared to \$40,314 and \$98,034 last year. As a percentage of net sales, administrative and general expenses for the quarter and six months remained flat at 2.7 percent, compared to 3.0 and 3.5 percent for the comparable quarter and six months in fiscal 2006. Favorable bad debt recoveries in the prior year were offset by lower pension and medical expenses, and overall decreases in administrative expenses during fiscal 2007. Administrative and general expenses for the six months are also lower compared to last year as a result of certain expenses recognized in the first quarter. In the first quarter of 2006, the Company recognized \$9,200 of stock option expense recorded under SFAS 123(R) (Share-Based Payment), primarily due to executive retirements and expensing of new option grants to retirement eligible individuals, and approximately \$3,800 for expenses related to partial settlements on non-qualified plans resulting from executive retirements. In comparison, the Company recorded stock option expense of approximately \$2,000 in the first quarter of fiscal 2007 related to new option grants to retirement-eligible individuals, plus \$423 and \$2,185 for the second quarter and six months, respectively, related to the one-time grant of 100 stock options to all active, full-time employees. The Company expects administrative and general expenses to approximate 2.8 percent of net sales for the 2007 fiscal year.

Equity in earnings of affiliates was \$(31) and \$872 for the second quarter and six months, respectively, compared to \$1,302 and \$3,700 last year. Decreases for both the second quarter and six months primarily reflect decreased performance by the Company's 40.0 percent owned Philippine joint venture, Purefoods-Hormel Company, and by the Company's 49.0 percent owned joint venture, Carapelli USA, LLC. Minority interests in the Company's consolidated investments are also reflected in these figures, resulting in decreased earnings of \$617 and \$1,052 for the second quarter and six months, respectively, compared to the prior year.

The effective tax rate for the second quarter and six months of fiscal 2007 was 37.4 and 36.0 percent, respectively, compared to 33.8 and 32.4 percent for the comparable quarter and six months of fiscal 2006. The higher rate is primarily due to a \$1,642 charge in the second quarter of 2007 for discrete events related to unfavorable prior period audits, while the second quarter rate in 2006 was reduced by a discrete benefit related to a favorable prior year audit settlement. The lower six 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. The Company expects a full-year effective tax rate between 35.5 and 36.0 percent for fiscal 2007.

## Segment Results

Net sales and operating profits for each of the Company's segments are set forth below. As noted above, Dan's Prize became an operating segment of Refrigerated Foods beginning in fiscal 2007 (previously reported in the All Other segment). All prior year information has been reclassified to reflect this change. 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. Additional segment financial information can be found in Note K of the Notes to Consolidated Financial Statements.

	Three Months Ended			Six Months Ended		
	April 29, 2007	April 30, 2006	% Change	April 29, 2007	April 30, 2006	% Change
<b>Net Sales</b>						
Grocery Products	\$ 223,625	\$ 200,955	11.3	\$ 429,841	\$ 404,912	6.2
Refrigerated Foods	796,339	715,245	11.3	1,594,311	1,474,366	8.1
Jennie-O Turkey Store	270,044	254,607	6.1	546,658	521,653	4.8
Specialty Foods	169,069	157,016	7.7	346,148	308,178	12.3
All Other	45,520	37,522	21.3	91,722	72,169	27.1
Total	\$ 1,504,597	\$ 1,365,345	10.2	\$ 3,008,680	\$ 2,781,278	8.2
<b>Segment Operating Profit</b>						
Grocery Products	\$ 39,194	\$ 30,615	28.0	\$ 72,178	\$ 63,384	13.9
Refrigerated Foods	44,187	35,933	23.0	86,129	74,644	15.4
Jennie-O Turkey Store	13,949	26,640	(47.6)	43,920	66,319	(33.8)
Specialty Foods	16,281	12,217	33.3	34,323	22,545	52.2
All Other	4,866	4,193	16.1	11,340	8,119	39.7
Total segment operating profit	\$ 118,477	\$ 109,598	8.1	\$ 247,890	\$ 235,011	5.5
Net interest and investment income	(4,373)	(3,395)	(28.8)	(8,651)	(8,743)	1.1
General corporate expense	(5,562)	(4,605)	(20.8)	(15,189)	(24,370)	37.7
Earnings before income taxes	\$ 108,542	\$ 101,598	6.8	\$ 224,050	\$ 201,898	11.0

## Grocery Products

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

Grocery Products net sales increased 11.3 percent for the second quarter and 6.2 percent for the six months compared to the comparable fiscal 2006 periods. Tonnage volume was up 4.9 percent for the quarter and 2.9 percent for the six months compared to the prior year. The Valley Fresh acquisition contributed \$6,123 of net sales and 2,554,000 lbs. of tonnage volume to the second quarter results and \$14,705 of net sales and 6,627,000 lbs. of tonnage volume to the six month results. Excluding the impact of this acquisition, net sales and tonnage volume showed increases of 8.2 percent and 2.8 percent, respectively, compared to the second quarter of fiscal 2006 and increases of 2.5 percent and 0.3 percent, respectively, compared to the first six months of last year. Segment profit for Grocery Products increased 28.0 percent for the second quarter and 13.9 percent for the six months compared to the prior year.

Increases for the second quarter were driven by continued growth in microwave products (up 5.8 million lbs. or 36.0 percent), led by the *Hormel Compleats* microwave tray line. This line is now available in over 90 percent of U.S. grocery stores and continues to gain distribution and household penetration. Improved chili sales were also experienced during the quarter, with combined sales of *Hormel* and *Stagg* chili increasing by 12.9 and 5.2 percent for the second quarter and six months, respectively. While the *SPAM* family of products showed volume improvements during the quarter, net sales remained relatively flat compared to the prior year due to promotional activity related to the 70th anniversary of the brand.

Looking forward, the Grocery Products segment is anticipating higher input costs for pork and chicken raw materials throughout the second half of fiscal 2007. A price increase on certain product lines was announced during the second quarter, effective April 30, 2007, which should help to offset a portion of those cost increases.

### Refrigerated Foods

The Refrigerated Foods segment includes the business units of Meat Products, Foodservice, and Saag's Products, Inc. (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 Meat Products business unit includes the results of operations for Lloyd's Barbeque Company (Lloyd's), and the Foodservice business unit includes the results of operations for Provena Foods Inc. (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.

Net sales by the Refrigerated Foods segment increased 11.3 percent for the second quarter and 8.1 percent for the first six months of fiscal 2007, compared to the same periods of fiscal 2006. Tonnage volume increased 5.3 percent and 4.7 percent for the second quarter and six months, respectively, compared to last year. Net sales and tonnage comparisons were positively impacted by the fiscal 2007 acquisitions of Saag's and Provena. These acquisitions contributed a combined \$17,090 of net sales and 9.7 million lbs. of tonnage volume to the second quarter results and \$24,883 of net sales and 13.5 million lbs. of tonnage volume to the six month results. Excluding the impact of these acquisitions, net sales and tonnage volume showed increases of 8.9 percent and 3.6 percent, respectively, compared to the second quarter of fiscal 2006 and increases of 6.4 percent and 3.5 percent, respectively, compared to the first six months of last year.

Segment profit for Refrigerated Foods increased 23.0 and 15.4 percent for the second quarter and six months, respectively, compared to the prior year. The Company's hog processing for the second quarter increased 4.6 percent to 2,368,000 hogs from 2,263,000 hogs for the comparable period last year. Hog processing has increased 4.8 percent in the first six months of fiscal 2007, as compared to the prior year. Strong pork packer margins (the spread between live cost and meat values) were a significant factor driving the profit increases for the quarter. Hog costs were up 11.6 percent over the prior year second quarter, but cutout values increased more rapidly by 12.8 percent due to high demand for pork and strong export sales. The Company expects key primal markets to remain above historical levels into the third quarter.

The Meat Products business unit experienced mixed results in the second quarter. Solid top line growth was noted over the prior year on *Hormel* retail sliced pepperoni (up 681,000 lbs. or 15.5 percent), *Always Tender* flavored meats (up 1,930,000 lbs. or 31.5 percent), *Hormel* party trays (up 605,000 lbs. or 46.6 percent), and *DiLusso Deli Company* products (up 607,000 lbs. or 48.4 percent). The *Hormel Natural Choice* line of products also reported gains for the quarter (up 1,141,000 lbs. or 68.6 percent), reflecting additional distribution achieved through new product introductions and ongoing advertising support. Despite these increases, margins were pressured by quickly escalating raw material markets. As the higher markets are expected to continue during fiscal 2007, price increases are being put in place to help offset these higher input costs.

The Foodservice business unit continued its strong momentum into the second quarter, with operating profit up 13.5 percent over 2006. Branded tonnage increased 3.6 percent over the second quarter of 2006. Particularly strong were premium pork (up 625,000 lbs. or 13.8 percent), pizza toppings (up 936,000 lbs. or 10.1 percent), and sliced meats (up 720,000 lbs. or 14.9 percent). The Provena acquisition also contributed 8.3 million lbs. to the quarter.

Farmer John results were improved over the second quarter of fiscal 2006, despite the continued impact of higher grain costs at its hog production facilities. Value added volume growth contributed to improvements for the quarter, particularly in foodservice.

Dan's Prize, the Company's wholly owned marketer and seller of beef products, reported tonnage up 560,000 lbs. or 10.4 percent over the prior year second quarter. Operating profit increased 6.7 percent for the quarter compared to fiscal 2006. Margin improvements were not as significant as those experienced in the first quarter, as early winter storms throughout the cattle feeding region created reduced numbers of slaughter ready cattle during the quarter, reduced slaughter weights, and created some supply challenges. This pressure declined toward the end of the quarter, and some margin improvement is expected in the second half of fiscal 2007.

### **Jennie-O Turkey Store**

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

JOTS net sales increased 6.1 percent for the second quarter and 4.8 percent for the six months versus the comparable periods of fiscal 2006. Tonnage increased 3.9 percent for the second quarter and 2.5 percent for the six months, compared to fiscal 2006 results. Slaughter volume is increasing at a slower rate than value added sales growth, resulting in a gradual reduction in commodity meat sales. Value added sales increased 8.6 and 10.7 percent for the quarter and six months of fiscal 2007, respectively, compared to the prior year, while commodity sales declined 8.2 and 15.5 percent in the same periods.

Segment profit for JOTS decreased 47.6 percent for the second quarter and 33.8 percent for the first six months of fiscal 2007 compared to the prior year. The results continued to reflect significantly higher feed costs and feed-related grow partner costs compared to fiscal 2006, as feed costs per ton for the second quarter were 37.3 percent higher than last year. Pricing advances, volume gains, and product mix improvements were all achieved during the quarter, but were unable to offset the higher costs. The segment also continued to be challenged with further processed tom weights below prior year levels, and the entire industry has faced livability rates below historical averages, which have both reduced the volume available for sale. So although commodity meat pricing continued to be strong for the quarter, the lower volumes negatively impacted profits compared to fiscal 2006. As value added growth continues to be a focus, the Company is working to develop an effective balance with the available meat supply.

As noted, value added growth was strong for the quarter, with all three value added business units surpassing prior year net sales and tonnage. In the retail unit, product lines reflecting strong second quarter increases over the prior year were *Jennie-O Turkey Store Oven Ready* items (up 311,000 lbs. or 93.9 percent) and *Jennie-O Turkey Store* frozen turkey burgers (up 870,000 lbs. or 23.4 percent). In the deli unit, growth continued in the *Jennie-O Turkey Store* rotisserie category, up 324,000 lbs. compared to the prior year second quarter. The foodservice unit also had another excellent quarter, with continued acceptance of turkey burgers in the casual dining segment (up 641,000 lbs. or 60.6 percent) noted during the quarter.

For the remainder of the fiscal year, the segment's principal challenge will be to continue to narrow the gap between grain costs and finished product pricing. The second half of the fiscal year should benefit from the pricing advances implemented during the second quarter, and additional pricing and cost containment initiatives will be pursued. However, the Company expects operating profits for this segment to remain below prior year levels during the third quarter, with results becoming more comparable to 2006 near the end of the fiscal year.

## Specialty Foods

The Specialty Foods segment includes the Diamond Crystal Brands (DCB), Century Foods International (CFI), and Hormel Specialty Products (HSP) operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, 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. DCB includes the results of operations for Hormel HealthLabs and Mark-Lynn Foods Inc. (Mark-Lynn). Specialty Products also includes the results for Valley Fresh private label products.

Specialty Foods net sales increased 7.7 percent for the second quarter and 12.3 percent for the first six months of fiscal 2007, compared to the same periods of fiscal 2006. Tonnage volume increased 1.5 and 9.6 percent for the quarter and six months, respectively, compared to the prior year. The Valley Fresh acquisition contributed \$943 of net sales and 1,206,000 lbs. of tonnage volume to the second quarter results and \$3,027 of net sales and 4,104,000 lbs. of tonnage volume to the six month results. Excluding the impact of this acquisition, net sales and tonnage volume showed increases of 7.1 percent and 0.7 percent, respectively, compared to the second quarter of fiscal 2006 and increases of 11.3 percent and 8.1 percent, respectively, compared to the first six months of last year. Each operating segment within Specialty Foods recorded higher net sales for the quarter compared to last year, while overall segment tonnage was up only slightly due to a favorable product mix shift.

Specialty Foods segment profit increased 33.3 percent in the second quarter and 52.2 percent for the six months, compared to 2006 results. Overall segment profit results for the quarter reflected higher net sales, lower operating costs, and reduced selling expenses compared to last year. HSP experienced improved results for ingredients driven by a favorable pricing environment, and increased production volumes created favorable manufacturing variances during the quarter. Results at DCB were driven by an improved product mix as sales shifted to higher growth in nutritional products, while sales of commodity sugar products declined. Sales of sugar substitute products were also up compared to last year. CFI continued to benefit from improved capacity utilization, with double-digit tonnage growth shown in all but one major product category, and benefits due to the rising price of whey protein were also realized during the quarter.

## All Other

The All Other segment includes the Hormel Foods International (HFI) operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes 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.

All Other net sales increased 21.3 percent for the quarter and 27.1 percent for the six months, compared to the comparable fiscal 2006 periods. Segment profit increased 16.1 and 39.7 percent for the quarter and six months, respectively, compared to prior year results. Fresh pork export sales were again a key driver for the quarter, up 4.4 million lbs. or 34.4 percent compared to the prior year quarter, due to planned reductions in picnic sales in the first half of 2006. The segment reported increased net sales and tonnage for its China operations for the quarter, but profitability remained below prior year levels due to higher commodity input costs and freight expenses.

## Unallocated Income and Expenses

The Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. These items are included in the segment table for the purpose of reconciling segment results to earnings before income taxes.



Net interest and investment income for the second quarter and six months of fiscal 2007 was a net expense of \$4,373 and \$8,651, respectively, compared to a net expense of \$3,395 and \$8,743 for the comparable quarter and six months of fiscal 2006. Investment returns on the Company's rabbi trust for supplemental executive retirement plans and deferred income plans decreased by \$1,051 for the second quarter, compared to strong prior year performance. Interest expense of \$6,998 for the second quarter increased from \$6,404 in the prior year, as the Company made additional funding to the rabbi trust by borrowing against the excess cash surrender value on its life insurance policies, to take advantage of favorable rates. The Company anticipates that interest expense will approximate \$26,000 for fiscal 2007.

General corporate expense for the second quarter and six months was \$5,562 and \$15,189, respectively, compared to \$4,605 and \$24,370 for the comparable periods of fiscal 2006. Favorable bad debt recoveries in 2006 contributed to the increase for the second quarter, but were partially offset by overall lower corporate expenses in 2007. In the first quarter of fiscal 2006, the Company also recorded \$9,200 of stock option expense under SFAS 123(R) (Share-Based Payment), primarily due to executive retirements and expensing of new option grants to retirement eligible individuals, and approximately \$3,300 for expenses related to partial settlements on non-qualified plans resulting from executive retirements. The expense retained in corporate for option grants to retirement-eligible individuals decreased to approximately \$1,600 for the first quarter of fiscal 2007, but an additional \$423 and \$2,185 was recognized for the second quarter and six months, respectively, related to the one-time grant of 100 stock options to all active, full-time employees.

#### **Related Party Transactions**

There has been no material change in the information regarding Related Party Transactions that was disclosed in the Company's Annual Report on Form 10-K for the year ended October 29, 2006.

**LIQUIDITY AND CAPITAL RESOURCES**

Selected financial ratios at the end of the second quarter of fiscal years 2007 and 2006 are as follows:

	End of Quarter 2nd Quarter 2007		2nd Quarter 2006	
Liquidity Ratios				
Current ratio	2.2		1.9	
Receivables turnover	18.1		19.3	
Days sales in receivables	19.5		18.0	
Inventory turnover	7.6		7.5	
Days sales in inventory	50.4		50.4	
Leverage Ratio				
Long-term debt (including current maturities) to equity	18.3	%	21.2	%
Operating Ratios				
Pretax profit to net worth	24.1	%	24.5	%
Pretax profit to total assets	14.5	%	14.0	%

Cash, cash equivalents, and short-term marketable securities were \$107,773 at the end of the second quarter of fiscal year 2007 compared to \$120,641 at the end of the comparable fiscal 2006 period.

Cash provided by operating activities was \$88,786 in the first six months of fiscal 2007 compared to \$99,795 in the same period of fiscal 2006. Higher earnings for the first half of fiscal 2007 were offset by changes in working capital, including substantially higher inventory levels and the timing of federal tax payments compared to the prior year. However, the Company elected not to prefund its discretionary Voluntary Employee Benefit Account (VEBA) in fiscal 2007, compared with funding of \$57,000 made in the first quarter of fiscal 2006. During the first quarter of fiscal 2006, the Company also made payments of \$19,806 to partially settle lump sum payment obligations under non-qualified pension plans triggered by executive retirements, and payments of \$10,074 on the Company's Long Term Incentive Plan with respect to the three-year period ended October 30, 2005, which did not recur in fiscal 2007.

Cash flow from operating activities provides the Company with its principal source of liquidity. Based on current business conditions, the Company does not anticipate a significant risk to cash flow from this source in the foreseeable future.

Cash used in investing activities increased to \$115,664 from \$99,295 in the first six months of fiscal 2006. In the first quarter of fiscal 2007, the Company acquired Saag's Products, Inc. for a preliminary purchase price of \$12,997, and also invested \$20,483 in a joint venture with San Miguel Corporation for the purchase of a hog processing business in Vietnam. These outflows were offset by the purchase of Valley Fresh in the second quarter of 2006, for a preliminary purchase price of \$76,444. The Company's investments in short-term auction rate securities also resulted in a net cash outflow of \$13,775 in the first six months of fiscal 2007, compared to an inflow of \$38,500 in the comparable period of fiscal 2006. Fixed asset expenditures were \$69,961 for the first six months of fiscal 2007 compared to \$63,646 in the comparable period of fiscal 2006. The Company estimates its fiscal 2007 fixed asset expenditures to be approximately \$145,000.

Cash used in financing activities was \$51,609 in the first six months of fiscal 2007 compared to \$10,905 in the same period of fiscal 2006. The variance in cash flow is due to net payments on debt of \$8,880 in fiscal 2007, primarily related to debt assumed from the acquisition of Provena, compared to net proceeds of \$34,663 in fiscal 2006 when the Company borrowed on its existing line of short-term credit to finance the acquisition of Valley Fresh. The Company used \$11,706 for common stock repurchases in first six months of fiscal 2007, compared to \$12,723 in the prior year. During the first six months of fiscal 2007, the Company repurchased 320,922 shares of its common stock under the repurchase plan approved by the Company's Board of Directors in October 2002. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Cash dividends paid to the Company's shareholders also continues to be a significant financing activity for the Company. Dividends paid in the first six months of 2007 were \$39,881 compared to \$37,215 in the comparable period of fiscal 2006, reflecting a 7.1 percent increase in the dividend rate over 2006. The Company has paid dividends for 315 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and balance sheet position. At the end of the second quarter of fiscal 2007, the Company was in compliance with all of these debt covenants.

#### **Contractual Obligations and Commercial Commitments**

There has been no material change in the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the year ended October 29, 2006.

#### **Off-Balance Sheet Arrangements**

The Company currently provides a revocable standby letter of credit for \$1,940 to guarantee obligations that may arise under workers compensation claims of an affiliated party. This potential obligation is not reflected on the Company's consolidated statements of financial position.

## FORWARD-LOOKING STATEMENTS

This report contains forward-looking information within the meaning of the federal securities laws. The forward-looking information may include statements concerning the Company's outlook for the future as well as other statements of beliefs, future plans, strategies, or anticipated events and similar expressions concerning matters that are not historical facts. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. Factors that may affect the operating results of the Company are discussed in Part II, Item 1A of this report on Form 10-Q.

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is filing this cautionary statement in connection with the Reform Act. When used in the Company's Annual Report to Stockholders, in filings by the Company with the Securities and Exchange Commission (the Commission), in the Company's press releases and in oral statements made by the Company's representatives, the words or phrases should result, believe, intend, plan, are expected to, targeted, will continue, will approximate, is anticipated, estimate, project, or similar expressions are intended forward-looking statements within the meaning of the Reform Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those anticipated or projected.

In connection with the safe harbor provisions of the Reform Act, the Company is identifying risk factors that could affect financial performance and cause the Company's actual results to differ materially from opinions or statements expressed with respect to future periods. The discussion of risk factors in Part II, Item 1A of this report on Form 10-Q contains certain cautionary statements regarding the Company's business, which should be considered by investors and others. Such risk factors should be considered in conjunction with any discussions of operations or results by the Company or its representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company.

In making these statements, the Company is not undertaking, and specifically declines to undertake, any obligation to address or update each or any factor in future filings or communications regarding the Company's business or results, and is not undertaking to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. Though the Company has attempted to list comprehensively these important cautionary risk factors, the Company wishes to caution investors and others that other factors may in the future prove to be important in affecting the Company's business or results of operations.

The Company cautions readers not to place undue reliance on forward-looking statements, which represent current views as of the date made. Forward-looking statements are inherently at risk to any changes in the national and worldwide economic environment, which could include, among other things, economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company and its markets.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

(In Thousands of Dollars)

*Hog Markets.* The Company's earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 15 years. Contract formulas are based on hog production costs, hog futures, hog primal values, or industry reported hog markets. Purchased hogs under contract accounted for 88 percent and 80 percent of the total hogs purchased by the Company through the first six months of fiscal 2007 and 2006, respectively. The Company has converted the majority of its contracts to market-based formulas in order to better match input costs with customer pricing. Therefore, a hypothetical 10 percent change in the cash market would have had an immaterial effect on the Company's results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the statement of financial position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of April 29, 2007, was (\$994), compared to \$(5,473) as of October 29, 2006.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's April 29, 2007, open contracts by \$1,823, which in turn would lower the Company's future cost of purchased hogs by a similar amount.

*Turkey Markets.* The Company raises or contracts for live turkeys. Production costs in raising turkeys are subject primarily to fluctuations in feed grain prices, and to a lesser extent, fuel costs. To reduce the Company's exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future direct grain purchases. This program utilizes corn and soybean meal futures, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value of \$(6,983), before tax, on the statement of financial position as of April 29, 2007, compared to \$2,467, before tax, as of October 29, 2006.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's April 29, 2007, open grain contracts by \$9,764, which in turn would lower the Company's future cost on purchased grain by a similar amount.

*Natural Gas.* Production costs at the Company's plants and feed mills are also subject to fluctuations in fuel costs. To reduce the Company's exposure to changes in natural gas prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future natural gas purchases. This program utilizes natural gas swaps, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value of \$1,384, before tax, on the statement of financial position as of April 29, 2007, compared to \$(4,256), before tax, as of October 29, 2006.

The Company measures its market risk exposure on its natural gas contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for natural gas. A 10 percent decrease in the market price for natural gas would have negatively impacted the fair value of the Company's April 29, 2007, open natural gas contracts by \$4,478, which in turn would lower the Company's future cost on natural gas purchases by a similar amount.

*Long-Term Debt.* A principal market risk affecting the Company is the exposure to changes in interest rates on the Company's fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately \$7,597. The fair values of the Company's long-term debt were estimated using discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

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

#### **Item 4. Controls and Procedures**

(a) **Disclosure Controls and Procedures.**

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

(b) **Internal Controls.** During the second quarter of fiscal year 2007, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is a party to various legal proceedings related to the on-going operation of its business. The resolution of any currently known matters is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

### Item 1A. Risk Factors

#### *Fluctuations in commodity prices of pork, poultry, and feed ingredients could harm the Company's earnings.*

The Company's results of operations and financial condition are largely dependent upon the cost and supply of pork, poultry, and feed grain as well as the selling prices for many of our products, which are determined by constantly changing market forces of supply and demand over which we have limited or no control.

The live pork industry has evolved to very large, vertically integrated, year-round confinement operations operating under long-term supply agreements. This has resulted in fewer hogs being available on the cash spot market. The decrease in the supply of live hogs on the cash spot market could severely diminish the utilization of slaughter facilities and increase the cost of the raw materials they produce. The Company uses long-term supply contracts to ensure a stable supply of raw materials while minimizing extreme fluctuations in costs over the long-term. This may result, in the short term, in costs for live hogs that are higher than the cash spot market depending on the relationship of the cash spot market to contract prices. Market-based pricing on certain product lines, and lead time required to implement pricing adjustments, may prevent these cost increases from being recovered, and these higher costs could adversely affect our short-term financial results.

Jennie-O Turkey Store raises turkeys and also contracts with turkey growers to meet its raw material requirements for whole birds and processed turkey products. Additionally, the Company owns various hog raising facilities that supplement its supply of raw materials. Results in these operations are affected by the cost and supply of feed grains, which fluctuate due to climate conditions, production forecasts, and supply and demand conditions at local, regional, national, and worldwide levels. The Company attempts to manage some of its short-term exposure to fluctuations in feed prices by purchasing futures contracts and pursuing pricing advances. However, these strategies may not be adequate to overcome sustained increases in market prices due to alternate uses for feed grains or other systemic changes in the industry, as have been experienced recently.

#### *Outbreaks of disease among livestock and poultry flocks could harm the Company's revenues and operating margins.*

The Company is subject to risks associated with the outbreak of disease in pork and beef livestock, and poultry flocks, including Bovine Spongiform Encephalopathy (BSE), pneumo-virus, and Avian Influenza. The outbreak of disease could adversely affect the Company's supply of raw materials, increase the cost of production, and reduce operating margins. Additionally, the outbreak of disease may hinder the Company's ability to market and sell products both domestically and internationally. The Company has developed business continuity plans for various disease scenarios and will continue to update these plans as necessary.

***Market demand for the Company's products may fluctuate due to competition from other producers.***

The Company faces competition from producers of other meats and protein sources, especially beef, chicken, and fish. The bases on which the Company competes include:

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

Demand for the Company's products is also affected by competitors' promotional spending and the effectiveness of the Company's advertising and marketing programs. The Company may be unable to compete successfully on any or all of these bases in the future.

***The Company's operations are subject to the general risks of the food industry.***

The food products manufacturing industry is subject to the risks posed by:

- food spoilage or food contamination;
- evolving consumer preferences and nutritional and health-related concerns;
- federal, state, and local food processing controls;
- consumer product liability claims;
- product tampering; and
- the possible unavailability and/or expense of liability insurance.

If one or more of these risks were to materialize, the Company's revenues could decrease, costs of doing business could increase, and the Company's operating results could be adversely affected.

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

The Company's business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions. If a high pathogenic H5N1 strain of Avian Influenza developed in the United States, it may negatively impact the national economy and/or the demand for poultry products, and the Company's financial results could suffer. The Company has developed contingency plans to address infectious disease scenarios and the potential impact on its operations, and will continue to update these plans as necessary.

***The Company's operations are subject to the general risks associated with acquisitions.***

The Company has made several acquisitions in recent years including, most recently, Saag's and Provena, and regularly reviews opportunities for strategic growth through acquisitions. The success of these recent acquisitions and any future acquisitions by the Company will depend substantially on its ability to integrate the acquired operations successfully with existing operations. If the Company is unable to integrate new operations successfully, financial results and business reputation could suffer. Additional risks associated with acquisitions are the diversion of management's attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible



assumption of unknown liabilities, potential disputes with the sellers, and the inherent risks in entering markets or lines of business in which the Company has limited or no prior experience. In addition, acquisitions outside the U.S. may present unique challenges and increase the Company's exposure to the risks associated with foreign operations.

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***The Company's operations are subject to the general risks of litigation.***

The Company is involved on an ongoing basis in litigation arising in the ordinary course of business. Trends in litigation may include class actions involving consumers, shareholders, or injured persons, and claims relating to labor, employment, or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could adversely affect the Company's financial results.

***Government regulation, present and future, exposes the Company to potential sanctions and compliance costs that could adversely affect the Company's business.***

The Company's operations are subject to extensive regulation by the U.S. Department of Agriculture, the U.S. Food and Drug Administration, and other state and local authorities that oversee food safety standards and the processing, packaging, storage, distribution, advertising, and labeling of the Company's products. The Company's manufacturing facilities and products are subject to constant inspection by federal, state, and local authorities. Claims or enforcement proceedings could be brought against the Company in the future. Additionally, the Company is subject to new or modified laws, regulations, and accounting standards. The Company's failure or inability to comply with such requirements could subject the Company to civil remedies, including fines, injunctions, recalls, or seizures, as well as potential criminal sanctions.

***The Company is subject to stringent environmental regulation and potentially subject to environmental litigation, proceedings, and investigations.***

The Company's past and present business operations and ownership and operation of real property are subject to extensive and increasingly stringent federal, state, and local environmental laws and regulations pertaining to the discharge of materials into the environment, and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Compliance with these laws and regulations, and the ability to comply with any modifications to these laws and regulations, is material to the Company's business. New matters or sites may be identified in the future that will require additional investigation, assessment, or expenditures. In addition, some of the Company's facilities have been in operation for many years and, over time, the Company and other prior operators of these facilities may have generated and disposed of wastes that now may be considered hazardous. Future discovery of contamination of property underlying or in the vicinity of the Company's present or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur additional expenses. The occurrence of any of these events, the implementation of new laws and regulations, or stricter interpretation of existing laws or regulations, could adversely affect the Company's financial results.

***The Company's foreign operations pose additional risks to the Company's business.***

The Company operates its business and markets its products internationally. The Company's foreign operations are subject to the risks described above, as well as risks related to fluctuations in currency values, foreign currency exchange controls, compliance with foreign laws, and other economic or political uncertainties. International sales are subject to risks related to general economic conditions, imposition of tariffs, quotas, trade barriers and other restrictions, enforcement of remedies in foreign jurisdictions and compliance with applicable foreign laws, and other economic and political uncertainties. All of these risks could result in increased costs or decreased revenues, which could adversely affect the Company's financial results.

***Deterioration of labor relations or increases in labor costs could harm the Company's business.***

The Company has approximately 18,100 employees, of which approximately 6,100 are represented by labor unions, principally the United Food and Commercial Workers Union. A significant increase in labor costs or a deterioration of labor relations at any of the Company's facilities that results in work slowdowns or stoppages could harm the Company's financial results. Union contracts at the Company's plants in Algona, Iowa; Austin, Minnesota; Beloit, Wisconsin; Fremont, Nebraska; and Tucker, Georgia will expire in September, 2007, covering a combined total of approximately 3,150 employees. Negotiations have not yet been initiated at any of these locations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities in the Second Quarter of Fiscal 2007**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
January 29, 2007 – March 4, 2007		\$		6,567,269
March 5, 2007 – April 1, 2007	320,922	36.48	320,922	6,246,347
April 2, 2007 – April 29, 2007				6,246,347
Total	320,922	\$ 36.48	320,922	

(1) On October 2, 2002, the Company announced that its Board of Directors had authorized the Company to repurchase up to 10,000,000 shares of common stock with no expiration date.

**Item 6. Exhibits**

- 31.1 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HORMEL FOODS CORPORATION**  
(Registrant)

Date: June 8, 2007

By /s/ JODY H. FERAGEN  
JODY H. FERAGEN  
Senior Vice President  
and Chief Financial Officer

Date: June 8, 2007

By /s/ ROLAND G. GENTZLER  
ROLAND G. GENTZLER  
Vice President and Treasurer

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