

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

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

**For Quarter Ended July 29, 2007**

**Commission File**  
**Number 1-2402**

**HORMEL FOODS CORPORATION**

**Incorporated Under the Laws**  
**of the State of Delaware**

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

**1 Hormel Place**

**Austin, Minnesota 55912-3680**

**Telephone - (507) 437-5611**

**None**

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

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

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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 September 2, 2007 |             |
|-------------------------|----------------------------------|-------------|
| Common Stock            | \$.0586 par value                | 136,528,125 |
| Common Stock Non-Voting | \$.01 par value                  | -0-         |

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## HORMEL FOODS CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

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

See notes to consolidated financial statements

## HORMEL FOODS CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

|   | July 29,<br>2007<br>(Unaudited) | October 29,<br>2006 |
|---|---------------------------------|---------------------|
| <b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>  |                                 |                     |
| <b>CURRENT LIABILITIES</b>  |                                 |                     |
| Accounts payable  | \$ 261,800                      | \$ 271,358          |
| Notes payable/short-term debt   | 10,000                          | 0                   |
| Accrued expenses  | 34,269                          | 27,103              |
| Accrued workers compensation  | 29,219                          | 27,895              |
| Accrued marketing expenses  | 73,311                          | 68,503              |
| Employee compensation   | 96,232                          | 107,332             |
| Taxes, other than federal income taxes  | 2,622                           | 7,784               |
| Dividends payable   | 20,691                          | 19,361              |
| Federal income taxes  | 0                               | 55,312              |
| Current maturities of long-term debt  | 60                              | 366                 |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>528,204</b>                  | <b>585,014</b>      |
| <b>LONG-TERM DEBT less current maturities</b>   | <b>350,013</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>50,870</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 136,709,732 shares July 29, 2007 issued 137,639,954 shares October 29, 2006 | 8,011                           | 8,066               |
| Additional paid-in capital  | 0                               | 2,507               |
| Accumulated other comprehensive loss  | (17,910)                        | (17,996)            |
| Retained earnings   | 1,933,487                       | 1,821,202           |
|   | 1,923,588                       | 1,813,779           |
| Shares held in treasury 300,000 shares October 29, 2006   | 0                               | (10,867)            |
| <b>TOTAL SHAREHOLDERS INVESTMENT</b>  | <b>1,923,588</b>                | <b>1,802,912</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>  | <b>\$ 3,124,194</b>             | <b>\$ 3,060,306</b> |

See notes to consolidated financial statements

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

(In Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

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

See notes to consolidated financial statements

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

(In Thousands of Dollars)

(Unaudited)

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

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

**Guarantees**

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

**New Accounting Pronouncements**

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



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

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

## **NOTE B**

### **ACQUISITIONS**

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

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

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

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

## **NOTE C**

### **STOCK-BASED COMPENSATION**

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

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

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

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

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

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

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

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

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

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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 July 29, 2007, and changes during the nine months then ended, is as follows:

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

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

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

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

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

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

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

**NOTE D****GOODWILL AND INTANGIBLE ASSETS**

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

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

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

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

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

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

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

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



**NOTE E****SHIPPING AND HANDLING COSTS**

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

**NOTE F****EARNINGS PER SHARE DATA**

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

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

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

Components of comprehensive income, net of taxes, are:

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

**NOTE H****INVENTORIES**

Principal components of inventories are:

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



**NOTE I**

**DERIVATIVES AND HEDGING**

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

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

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

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

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

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

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

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

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

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

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

**NOTE K****SEGMENT REPORTING**

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

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

The Refrigerated Foods segment includes the business units of Meat Products, Foodservice, and 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 Foodservice business unit includes the results of operations for Provena (acquired in December 2006). Due to the similarity of operations, product lines, and common management structure, the Dan's Prize operating segment is also included in Refrigerated Foods beginning in fiscal 2007. Dan's Prize was previously reported in the All Other segment, and all prior year information has been reclassified to reflect this change.

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

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

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

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

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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<br>July 29,<br>2007 | July 30,<br>2006 | Nine Months Ended<br>July 29,<br>2007 | July 30,<br>2006 |
|--|--|------------------|---------------------------------------|------------------|
| <b>Net Sales to Unaffiliated Customers</b> |  |                  |                                       |                  |
| Grocery Products                           | \$ 202,150                             | \$ 199,545       | \$ 631,991                            | \$ 604,457       |
| Refrigerated Foods                         | 825,285                                | 756,611          | 2,419,596                             | 2,230,977        |
| Jennie-O Turkey Store                      | 278,588                                | 267,754          | 825,246                               | 789,407          |
| Specialty Foods                            | 167,694                                | 146,583          | 513,842                               | 454,761          |
| All Other                                  | 46,288                                 | 36,401           | 138,010                               | 108,570          |
| Total                                      | \$ 1,520,005                           | \$ 1,406,894     | \$ 4,528,685                          | \$ 4,188,172     |
| <b>Intersegment Sales</b>                  |  |                  |                                       |                  |
| Grocery Products                           | \$                                     | \$               | \$                                    | \$               |
| Refrigerated Foods                         | 662                                    | 531              | 1,791                                 | 1,542            |
| Jennie-O Turkey Store                      | 25,802                                 | 20,643           | 70,442                                | 57,659           |
| Specialty Foods                            | 47                                     | 59               | 123                                   | 168              |
| All Other                                  |  |                  |                                       |                  |
| Total                                      | \$ 26,511                              | \$ 21,233        | \$ 72,356                             | \$ 59,369        |
| Intersegment elimination                   | (26,511 )                              | (21,233 )        | (72,356 )                             | (59,369 )        |
| Total                                      | \$                                     | \$               | \$                                    | \$               |
| <b>Net Sales</b>                           |  |                  |                                       |                  |
| Grocery Products                           | \$ 202,150                             | \$ 199,545       | \$ 631,991                            | \$ 604,457       |
| Refrigerated Foods                         | 825,947                                | 757,142          | 2,421,387                             | 2,232,519        |
| Jennie-O Turkey Store                      | 304,390                                | 288,397          | 895,688                               | 847,066          |
| Specialty Foods                            | 167,741                                | 146,642          | 513,965                               | 454,929          |
| All Other                                  | 46,288                                 | 36,401           | 138,010                               | 108,570          |
| Intersegment elimination                   | (26,511 )                              | (21,233 )        | (72,356 )                             | (59,369 )        |
| Total                                      | \$ 1,520,005                           | \$ 1,406,894     | \$ 4,528,685                          | \$ 4,188,172     |
| <b>Segment Operating Profit</b>            |  |                  |                                       |                  |
| Grocery Products                           | \$ 26,868                              | \$ 27,525        | \$ 99,046                             | \$ 90,909        |
| Refrigerated Foods                         | 36,764                                 | 30,023           | 122,893                               | 104,667          |
| Jennie-O Turkey Store                      | 20,841                                 | 25,715           | 64,761                                | 92,034           |
| Specialty Foods                            | 14,075                                 | 10,989           | 48,398                                | 33,534           |
| All Other                                  | 4,853                                  | 2,907            | 16,193                                | 11,026           |
| Total segment operating profit             | \$ 103,401                             | \$ 97,159        | \$ 351,291                            | \$ 332,170       |
| Net interest and investment income         | (5,260 )                               | (7,216 )         | (13,911 )                             | (15,959 )        |
| General corporate expense                  | (7,862 )                               | (2,410 )         | (23,051 )                             | (26,780 )        |
| Earnings before income taxes               | \$ 90,279                              | \$ 87,533        | \$ 314,329                            | \$ 289,431       |

**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 \$.41 per diluted share in the third quarter of fiscal 2007, compared to \$.43 per diluted share in the third quarter of fiscal 2006. Significant factors impacting the quarter were:

- Higher raw material costs negatively impacted results within the Grocery Products segment.
- Jennie-O Turkey Store profits declined due to continued higher feed related costs, although the segment made significant progress in the quarter toward recovering these costs through pricing initiatives and value-added product growth.
- The Refrigerated Foods segment reported strong results driven by growth in key value-added business units.
- The Specialty Foods segment continued to experience strong net sales and profit growth in all three operating segments.
- General corporate expenses increased from the prior year due to higher professional service related expenses, higher benefit related accruals, and a gain on the sale of a Company airplane recorded in fiscal 2006.
- Unfavorable discrete tax events increased the Company's effective tax rate and decreased earnings per share by \$.03 per diluted share.

**Consolidated Results**

Net earnings for the third quarter of fiscal 2007 decreased 3.7 percent to \$57,374 compared to \$59,551 in the same quarter of 2006. Diluted earnings per share for the quarter decreased to \$.41 from \$.43 last year. Net earnings for the first nine months of 2007 increased 2.3 percent to \$200,700 from \$196,135 in 2006. Diluted earnings per share for the same period increased to \$1.44 from \$1.41 in the prior year.

Net sales for the third quarter of fiscal 2007 increased 8.0 percent to \$1,520,005 from \$1,406,894 in 2006. Tonnage increased 0.5 percent to 1,066 million lbs. for the third quarter compared to 1,060 million lbs. in the same quarter of last year. Net sales for the first nine months of fiscal 2007 increased 8.1 percent to \$4,528,685 from \$4,188,172 in the first nine months of fiscal 2006. Tonnage for the nine months increased 3.8 percent over the comparable period of 2006. Net sales and tonnage comparisons were positively impacted by the first quarter 2007 acquisitions of Saag's and Provena, and on a year to date basis, includes the second quarter 2006 acquisition of Valley Fresh. On a combined basis, these acquisitions contributed \$16,902 of net sales and 9.6 million lbs. of tonnage to the third quarter results and \$59,516 of net sales and 33.9 million lbs. of tonnage to the nine month results. Excluding the impact of these acquisitions, net sales and tonnage increased 6.8 percent and decreased 0.4 percent, respectively, compared to the third quarter of fiscal 2006, and increased 6.7 percent and 2.7 percent, respectively, compared to the first nine months of last year.

Gross profit for the third quarter and nine months of fiscal 2007 was \$323,381 and \$1,028,704, respectively, compared to \$322,154 and \$1,006,628 for the same periods last year. Gross profit as a percentage of net sales for the third quarter and nine months decreased to 21.3 and

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22.7 percent, respectively, in 2007, from 22.9 and 24.0 percent for the comparable quarter and nine months of fiscal 2006. Prior year results included a \$6,218 gain on litigation recognized in the third quarter of fiscal 2006. Higher raw material costs for pork, beef, and chicken also pressured margins during the 2007 third quarter. The impact was most notable in the Grocery Products

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segment, where pricing advances taken early in the quarter were unable to offset the increased costs. Value-added growth within the Refrigerated Foods segment was able to offset a portion of this impact. Despite the continued higher grain markets compared to fiscal 2006, the Jennie-O Turkey Store (JOTS) segment was able to make substantial margin improvements in the third quarter through favorable product mix changes, pricing advances, and operational efficiency gains. Additional pricing advances will be pursued where possible during the fourth quarter, which should bring JOTS results in the fourth quarter back in line with prior year levels.

Selling and delivery expenses for the third quarter and nine months of fiscal 2007 were \$187,823 and \$578,974, respectively, compared to \$187,387 and \$566,886 last year. Lower shipping and handling costs provided some benefit in the third quarter, but these expenses still represented an increase of approximately \$3,200 for the first nine months of fiscal 2007 compared to the prior year. Selling and delivery expenses as a percentage of net sales decreased to 12.4 percent and 12.8 percent, respectively, for the third quarter and nine months of fiscal 2007, compared to 13.3 and 13.5 percent of net sales in the comparable periods of 2006. Approximately \$1,700 and \$4,200 were reflected in selling and delivery expense in the third quarter and nine months of fiscal 2006, respectively, related to settlements on non-qualified plans resulting from executive retirements. The Company's marketing investment also decreased slightly to 1.9 and 2.1 percent of net sales for the third quarter and nine months, respectively, compared to 2.1 percent and 2.3 percent in the comparable periods of 2006. However, marketing initiatives in the fourth quarter of fiscal 2007 are planned, which should result in marketing expenses for the upcoming quarter and full fiscal year exceeding fiscal 2006.

Administrative and general expenses were \$41,231 and \$123,574 for the third quarter and nine months of fiscal 2007, respectively, compared to \$40,028 and \$138,062 last year. As a percentage of net sales, administrative and general expenses for the both the fiscal 2007 third quarter and nine months were 2.7 percent, compared to 2.8 percent and 3.3 percent, respectively, for the comparable quarter and nine months in fiscal 2006. The increased expense for the quarter primarily reflects a gain of \$2,286 recorded on the sale of a Company airplane in the third quarter of fiscal 2006, higher professional service related expenses in 2007, and higher benefit related accruals compared to the prior year. 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. Approximately \$2,500 and \$6,300 were also included in administrative and general expense in the third quarter and nine months of fiscal 2006, respectively, related to settlements on non-qualified plans resulting from executive retirements. In comparison, the Company recorded stock option expense of approximately \$1,762 in the first quarter of fiscal 2007 related to new option grants to retirement-eligible individuals, and \$402 and \$2,587 for the third quarter and nine 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 remain near current levels during the fourth quarter, and to approximate 2.8 percent of net sales for the 2007 fiscal year.

Equity in earnings of affiliates was \$1,212 and \$2,084 for the third quarter and nine months of fiscal 2007, respectively, compared to \$10 and \$3,710 last year. Increases for the third quarter primarily reflect increased performance by the Company's 40.0 percent owned Philippine joint venture, Purefoods-Hormel Company, and increases for both the quarter and nine months reflect improved performance from the Company's 50.0 percent owned joint venture, Herdez Corporation. In the first quarter of fiscal 2007, the Company invested \$20,483 in a joint venture with San Miguel Corporation for the purchase of a hog production business in Vietnam. Equity in earnings from this 49.0 percent owned joint venture also benefited the third quarter and nine month comparison to the prior year by \$395 and \$213, respectively. Minority interests in the Company's consolidated investments are also reflected in these figures, resulting in decreased earnings of \$452 and \$1,504 for the third quarter and nine months, respectively, compared to the prior year.

The effective tax rate for the third quarter and first nine months of fiscal 2007 was 36.4 and 36.1 percent, respectively, compared to 32.0 and 32.2 percent for the comparable periods of fiscal 2006. The higher rate for both the quarter and nine months of 2007 primarily reflects the impact of discrete events related to unfavorable prior period audits, while the fiscal 2006 rates were reduced by discrete benefits related to the favorable settlement of various state and federal tax audits. The lower nine month rate for fiscal 2006 also reflects a discrete item recorded in the first quarter for the tax benefit related to a Medicare subsidy created under the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Company expects a fourth quarter effective tax rate between 35.4 and 35.8 percent, which should result in a full year effective tax rate between 35.8 and 36.2 percent for fiscal 2007.

## Segment Results

Net sales and operating profits for each of the Company's segments are set forth below. Additional segment financial information can be found in Note K of the Notes to Consolidated Financial Statements.

|                                    | Three Months Ended |                  |             | Nine Months Ended |                  |             |
|------------------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
|                                    | July 29,<br>2007   | July 30,<br>2006 | %<br>Change | July 29,<br>2007  | July 30,<br>2006 | %<br>Change |
| <b>Net Sales</b>                   |                    |                  |             |                   |                  |             |
| Grocery Products                   | \$ 202,150         | \$ 199,545       | 1.3         | \$ 631,991        | \$ 604,457       | 4.6         |
| Refrigerated Foods                 | 825,285            | 756,611          | 9.1         | 2,419,596         | 2,230,977        | 8.5         |
| Jennie-O Turkey Store              | 278,588            | 267,754          | 4.0         | 825,246           | 789,407          | 4.5         |
| Specialty Foods                    | 167,694            | 146,583          | 14.4        | 513,842           | 454,761          | 13.0        |
| All Other                          | 46,288             | 36,401           | 27.2        | 138,010           | 108,570          | 27.1        |
| Total                              | \$ 1,520,005       | \$ 1,406,894     | 8.0         | \$ 4,528,685      | \$ 4,188,172     | 8.1         |
| <b>Segment Operating Profit</b>    |                    |                  |             |                   |                  |             |
| Grocery Products                   | \$ 26,868          | \$ 27,525        | (2.4 )      | \$ 99,046         | \$ 90,909        | 9.0         |
| Refrigerated Foods                 | 36,764             | 30,023           | 22.5        | 122,893           | 104,667          | 17.4        |
| Jennie-O Turkey Store              | 20,841             | 25,715           | (19.0 )     | 64,761            | 92,034           | (29.6 )     |
| Specialty Foods                    | 14,075             | 10,989           | 28.1        | 48,398            | 33,534           | 44.3        |
| All Other                          | 4,853              | 2,907            | 66.9        | 16,193            | 11,026           | 46.9        |
| Total segment operating profit     | \$ 103,401         | \$ 97,159        | 6.4         | \$ 351,291        | \$ 332,170       | 5.8         |
| Net interest and investment income | (5,260 )           | (7,216 )         | 27.1        | (13,911 )         | (15,959 )        | 12.8        |
| General corporate expense          | (7,862 )           | (2,410 )         | (226.2 )    | (23,051 )         | (26,780 )        | 13.9        |
| Earnings before income taxes       | \$ 90,279          | \$ 87,533        | 3.1         | \$ 314,329        | \$ 289,431       | 8.6         |

## 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.

Grocery Products net sales increased 1.3 percent for the third quarter and 4.6 percent for the nine months compared to the comparable fiscal 2006 periods. Tonnage was down 1.1 percent for the quarter and up 1.6 percent for the nine months compared to the prior year. The Valley Fresh acquisition contributed \$14,705 of net sales and 6.6 million lbs. of tonnage to the nine month results. Excluding the impact of this acquisition, net sales showed an increase of 2.5 percent and tonnage showed a slight decrease of 0.2 percent, compared to the first nine months of last year.

Increases in the third quarter tonnage were driven by continued growth in microwave products (up 3.4 million lbs. or 22.2 percent), led by the *Hormel Compleats* microwave tray line. The *SPAM* family of products also showed volume improvements (up 2.3 million lbs. or 14.0 percent) reflecting promotional activity related to the 70th anniversary of the brand. Offsetting these increases were lower than expected sales of *Chi-Chi's* sauces, *Hormel* chili, and *Valley Fresh* chunk meats.

Segment profit for Grocery Products decreased 2.4 percent for the third quarter and increased 9.0 percent for the nine months compared to the comparable fiscal 2006 periods. Decreases for the third quarter were driven by higher commodity input costs for pork, beef, and chicken. Pricing actions taken at the beginning of the third quarter were not sufficient to offset these higher input costs. The profitability of the *SPAM* family of products, chunk chicken, and *Hormel* bacon bits were most negatively impacted by the increased raw material costs.

Looking forward, the Grocery Products segment is anticipating continued pressure in the fourth quarter from higher input costs for pork and chicken raw materials, which may have a negative impact on segment profit results for the remainder of fiscal year 2007.

### 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 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 9.1 percent for the third quarter and 8.5 percent for the nine months of fiscal 2007, compared to the same periods of fiscal 2006. Tonnage decreased slightly by 0.6 percent and increased by 2.9 percent for the third quarter and nine 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 \$16,902 of net sales and 9.6 million lbs. of tonnage to the third quarter results and \$41,785 of net sales and 23.1 million lbs. of tonnage to the nine month results. Excluding the impact of these acquisitions, net sales and tonnage increased 6.8 percent and decreased 2.3 percent, respectively, compared to the third quarter of fiscal 2006, and increased 6.6 percent and 1.5 percent, respectively, compared to the first nine months of last year.

Segment profit for Refrigerated Foods increased 22.5 and 17.4 percent for the third quarter and nine months, respectively, compared to the prior year. The Company processed 2,265,000 hogs during the third quarter, which was comparable to 2,267,000 hogs for the same period last year. Hog processing has increased 3.2 percent in the first nine months of fiscal 2007, as compared to the prior year. Processing margins were negatively impacted by higher raw material costs, as hog costs were up 5.4 percent over the prior year third quarter while cutout values increased only 2.5 percent. Prior year results also included a \$3,109 gain on litigation recognized in the third quarter of fiscal 2006. Strong value-added product growth, favorable product mix, and strategic price increases in key product categories were more than able to offset these cost impacts, driving the overall operating profit increase for the third quarter. The Company expects hog markets in the fourth quarter of fiscal 2007 to be comparable to the prior year, and anticipates a slight increase in supply.

The Meat Products business unit reported strong results in the third quarter. Strong retail feature and display activity during the quarter contributed to notable gains over the prior year on *Always Tender* flavored meats (up 1,492,000 lbs. or 18.7 percent), *DiLusso Deli Company* products (up 859,000 lbs. or 61.6 percent), *Hormel* refrigerated entrees (up 700,000 lbs. or 15.5 percent), and *Hormel* party trays (up 190,000 lbs. or 10.5 percent). *Hormel Natural Choice* lunchmeats also reported gains for the quarter (up 1,259,000 lbs. or 62.5 percent), as the Company continues to aggressively support this all natural product line with national advertising and consumer promotions. As noted, the benefit of price increases implemented during the quarter for certain Meat Products categories also contributed to improved operating profit results for the segment.

The Foodservice business unit also experienced strong top and bottom line growth in the third quarter, reflecting a 6.2 percent increase in branded tonnage over the third quarter of 2006. Double-digit growth was reported in several product categories, including pizza toppings (up 1,062,000 lbs. or 11.0 percent), sliced meats (up 926,000 lbs. or 19.2 percent), and BBQ/caf   h (up 642,000 lbs. or 14.7 percent). The Provena acquisition also contributed 11.6 million lbs. to the third quarter. The acquisition of Burke Corporation, announced subsequent to the end of the third quarter, will further strengthen the Company's position in the pizza toppings category and is expected to be accretive to Foodservice results in the next fiscal year.

Farmer John reported improved results over the third quarter of fiscal 2006, reflecting improvements in product mix, pricing advances, and marketing initiatives during the quarter. Sales of foodservice products, including sliced ham and precooked breakfast meats, continued to increase during the quarter. To date, however, Farmer John has been unable to fully offset losses on the fresh pork side of their business and the impact of higher grain costs at its hog production facilities.

Dan's Prize, the Company's wholly owned marketer and seller of beef products, reported relatively flat volume compared to the prior year third quarter, reflecting the planned exit of certain low-margin business at the end of May 2007. Increases in shingle-packed pre-sliced meats partially offset this impact. Operating profit decreased 4.7 percent for the quarter compared to fiscal 2006, driven by an overall increase in raw material costs compared to the prior year.

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

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

JOTS net sales increased 4.0 percent for the third quarter and 4.5 percent for the nine months ended July 29, 2007, versus the comparable periods of fiscal 2006. Sales tonnage decreased 1.0 percent for the third quarter and increased 1.2 percent for the nine months, compared to fiscal 2006 results. Value-added growth continued while slaughter volume rates remained flat compared to the prior year, resulting in less commodity meat available for sale. Value-added sales increased 7.8 and 9.7 percent for the quarter and nine months of fiscal 2007, respectively, compared to the prior year, while commodity sales declined 2.7 and 11.1 percent in the same periods.

Segment profit for JOTS decreased 19.0 percent for the third quarter and 29.6 percent for the first nine months of fiscal 2007 compared to the prior year. Higher feed costs and feed-related grow partner costs continued throughout the quarter, increasing approximately \$26,000 over the same prior year period. Corn markets remained higher than fiscal 2006, and soybean meal, fat, meat and bone meal, and other ingredients have also increased substantially over prior year levels. Significant progress was made during the quarter in offsetting these costs through price increases, mix improvement, and operating efficiency gains. Prior year results also included a \$3,109 gain on litigation recognized in the third quarter of fiscal 2006. Commodity meat pricing remained very strong throughout the quarter, which benefited margins despite a reduction in commodity tonnage available for sale. Industry wide livability rates below historical averages are still challenging this segment, and the Company is pursuing initiatives to address this issue.

Within the segment, all three value-added business units experienced growth over the prior year. In the retail unit, the *Jennie-O Turkey Store* tray pack line (up 862,000 lbs. or 5.2 percent) and *Jennie-O Turkey Store* frozen turkey burgers (up 543,000 lbs. or 8.6 percent) showed notable gains compared to the prior year third quarter. In the deli unit, significant growth continued in the *Jennie-O Turkey Store* rotisserie category (up 1,036,000 lbs. or 25.4 percent) and on *Jennie-O Turkey Store* premium seasoned deli breasts (up 248,000 lbs. or 7.1 percent). The foodservice unit also reported turkey burgers up 567,000 lbs. or 45.3 percent for the quarter.

Looking forward, the Company expects grain markets to remain volatile and anticipates cash corn markets in the range of \$3.25 to \$3.50 per bushel for the remainder of the fiscal year. The JOTS segment will continue to pursue opportunities to narrow the earnings gap caused by these higher input costs, and expects its results in the fourth quarter to be comparable to the prior 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. Specialty Products includes the results for Valley Fresh private label products.

Specialty Foods net sales increased 14.4 percent for the third quarter and 13.0 percent for the first nine months of fiscal 2007, compared to the same periods of fiscal 2006. Tonnage increased 5.6 and 8.3 percent for the quarter and nine months, respectively, compared to the prior year. The Valley Fresh acquisition contributed \$3,027 of net sales and 4.1 million lbs. of tonnage to the nine month results. Excluding the impact of this acquisition, net sales and tonnage showed increases of 12.3 percent and 7.3 percent, respectively, compared to the first nine months of last year.

Specialty Foods segment profit increased 28.1 percent in the third quarter and 44.3 percent for the nine months, compared to 2006 results, with all three operating segments contributing to the gains. Pricing advances in the ingredients area and favorable performance on canned products drove the improved results for HSP. Despite a slight decline in tonnage, a favorable product mix shift resulted in top and bottom line growth for DCB. Higher sales of nutritional products offset lower commodity sugar volumes during the quarter. CFI continued to deliver the most notable growth due to strong demand for ready-to-drink and nutritional jar products. Benefits from the rising price of whey protein have also benefited margin results for the third quarter and nine months.

Despite the positive results reported throughout fiscal 2007, we do not expect the current growth rates to continue within the Specialty Foods segment. Future growth rates are expected to decline to a more normalized level, in line with the Company's long-term growth expectations of a 5.0 percent net sales increase and 10.0 percent operating profit growth.

## 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 27.2 percent for the quarter and 27.1 percent for the first nine months of fiscal 2007, compared to the comparable fiscal 2006 periods. Segment profit increased 66.9 and 46.9 percent for the quarter and nine months, respectively, compared to prior year results. Increased pork export sales and strong worldwide demand for the *SPAM* family of products and *Stagg* chili drove the results for the quarter. Profitability in the segment was also improved by higher equity in earnings from the Company's joint venture in the Philippines, reflecting favorable raw material costs and pricing advances. The Company's China operations continued to report lower profits due to an ongoing live hog shortage caused by disease issues in China. To date, price advances have not been sufficient to offset the higher hog input costs resulting from this shortage.

## 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 third quarter and nine months of fiscal 2007 was a net expense of \$5,260 and \$13,911, respectively, compared to a net expense of \$7,216 and \$15,959 for the comparable quarter and nine months of fiscal 2006. The lower expense in the third quarter primarily reflects improved returns on assets held by the Company's rabbi trust for supplemental executive retirement plans and deferred income plans of \$1,690. The results also reflect lower write downs on the Company's investments in fiscal 2007 of \$390 and \$1,708 for the third quarter and nine months, respectively. Interest expense of \$6,633 for the third quarter remained comparable to \$6,555 in the prior year. The acquisition of Burke Corporation, announced subsequent to the end of the fiscal 2007 third quarter, was partially financed using short-term borrowings from the Company's credit facility. The outstanding balance is expected to be repaid by the end of the calendar year, and the Company anticipates that interest expense will approximate \$27,000 for fiscal 2007.

General corporate expense for the third quarter and nine months was \$7,862 and \$23,051, respectively, compared to \$2,410 and \$26,780 for the comparable periods of fiscal 2006. The increased expense for the quarter primarily represents a gain of \$2,286 recorded on the sale of a Company airplane in the third quarter of fiscal 2006. Increased professional service related expenses and higher benefit related accruals in 2007 account for the remaining variance. In the first quarter of fiscal 2006, the Company 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. Approximately \$2,500 and \$6,300 were also included in general corporate expense in the third quarter and nine months of fiscal 2006, respectively, related to 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 \$402 and \$2,587 was recognized for the third quarter and nine 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 third quarter of fiscal years 2007 and 2006 are as follows:

|   | <b>End of Quarter<br/>3rd Quarter<br/>2007</b> |   | <b>3rd Quarter<br/>2006</b> |   |
|---|--|---|-----------------------------|---|
| <b>Liquidity Ratios</b>                                 |  |   |                             |   |
| Current ratio   | 2.2  |   | 1.9                         |   |
| Receivables turnover                                    | 18.1   |   | 18.9                        |   |
| Days sales in receivables                               | 19.5   |   | 19.0                        |   |
| Inventory turnover                                      | 7.6  |   | 7.6                         |   |
| Days sales in inventory                                 | 51.4   |   | 49.8                        |   |
| <b>Leverage Ratio</b>                                   |  |   |                             |   |
| Long-term debt (including current maturities) to equity | 18.2   | % | 20.7                        | % |
| <b>Operating Ratios</b>                                 |  |   |                             |   |
| Return on equity  | 14.4   | % | 15.6                        | % |
| Return on assets  | 8.7  | % | 9.0                         | % |

Cash, cash equivalents, and short-term marketable securities were \$104,504 at the end of the third quarter of fiscal year 2007 compared to \$139,299 at the end of the comparable fiscal 2006 period.

Cash provided by operating activities was \$156,597 in the first nine months of fiscal 2007 compared to \$168,380 in the same period of fiscal 2006. Higher earnings for the first nine months of fiscal 2007 and the impact of lower overall accounts receivable balances were offset by other changes in working capital, including a variance of approximately \$47,600 due to significantly higher inventory levels and approximately \$44,300 due to higher estimated federal tax payments compared to fiscal 2006. Various benefit related payments also impact the comparative results to the prior year. During the third quarter and first nine months of fiscal 2006, the Company made payments of approximately \$16,500 and \$36,300, respectively, to settle lump sum payment obligations under non-qualified pension plans triggered by executive retirements. In the prior year, the Company also prefunded its Voluntary Employee Benefit Account (VEBA) with \$57,000 in the first quarter, made payments of \$10,074 on its Long-Term Incentive Plan in the first quarter, and contributed \$17,650 to the Company's salaried defined benefit pension plan in the third quarter, which did not recur in fiscal 2007.

Cash flow from operating activities provides the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flow from this source in the foreseeable future because it operates in a stable industry and has strong products across several product lines.

Cash used in investing activities decreased to \$128,377 from \$145,234 in the first nine 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 invested \$20,483 in a joint venture with San Miguel Corporation for the purchase of a hog production 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 \$76,528. Changes in marketable securities balances held in the Company's available-for-sale portfolio represented a cash flow decrease of \$31,390 for fiscal 2007 compared to fiscal 2006. Fixed asset expenditures were \$96,602 for the first nine months of fiscal 2007 compared to \$107,678 in the comparable period of fiscal 2006. The Company estimates its fiscal 2007 fixed asset expenditures to be approximately \$135,000.

Cash used in financing activities was \$96,201 in the first nine months of fiscal 2007 compared to \$22,003 in the same period of fiscal 2006. The increased use of cash primarily represents common stock repurchase activity, as the Company used \$47,982 for repurchases in first nine months of fiscal 2007 compared to \$12,809 in the prior year. During the first nine months of fiscal 2007, the Company repurchased 1,301,030 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. The variance in financing cash flows also reflects \$32,576 of higher net proceeds from short-term debt in fiscal 2006, when the Company had borrowed on its short-term line of credit to meet working capital requirements.

Cash dividends paid to the Company's shareholders also continues to be a significant financing activity for the Company. Dividends paid in the first nine months of 2007 were \$60,524 compared to \$56,515 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 316 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 third 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 nine 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 July 29, 2007, was \$(3,386), 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 July 29, 2007, open contracts by \$9,361, 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 \$(6,740), before tax, on the statement of financial position as of July 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 July 29, 2007, open grain contracts by \$9,436, 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 \$(1,145), before tax, on the statement of financial position as of July 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 July 29, 2007, open natural gas contracts by \$4,074, 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 \$7,023. 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 third 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, Provena, and Burke Corporation, 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.

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

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

The Company's past and present business operations and ownership and operation of real property are subject to 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 on September 9, 2007, covering a combined total of approximately 3,100 employees. Negotiations have been underway at all noted locations throughout the third quarter, but no contracts have been finalized at this time.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2007**

| <b>Period</b>                 | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b> | <b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b> |
|-------------------------------|---|-------------------------------------|--|--|
| April 30, 2007 - June 3, 2007 |   |                                     |  | 6,246,347  |
| June 4, 2007 - July 1, 2007   | 345,600                                 | \$ 37.30                            | 345,600  | 5,900,747  |
| July 2, 2007 - July 29, 2007  | 634,508                                 | \$ 36.86                            | 634,508  | 5,266,239  |
| <b>Total</b>                  | <b>980,108</b>                          | <b>\$ 37.01</b>                     | <b>980,108</b>   |  |

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- (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

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**SIGNATURES**

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

**HORMEL FOODS CORPORATION**

(Registrant)

Date: September 6, 2007

By

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

Date: September 6, 2007

By

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

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