HORMEL FOODS CORP /DE/
Form 10-Q
September 05, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 27, 2008

or

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

For the transition period from **to**

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**41-0319970** (I.R.S. Employer Identification No.)
1 Hormel Place **Austin, Minnesota** (Address of principal executive offices)	**55912-3680** (Zip Code)

(507) 437-5611

(Registrant s telephone number, including area code)

None

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

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

Class	**Outstanding at August 31, 2008**	
Common Stock	$.0586 par value	134,817,543
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 27, 2008 (Unaudited)	October 28, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 109,987	$ 149,749
Accounts receivable	377,929	366,621
Inventories	794,318	646,968
Federal income taxes	9,448	0
Taxes, other than federal income taxes	66	0
Deferred income taxes	54,610	52,583
Prepaid expenses and other current assets	34,852	15,804
TOTAL CURRENT ASSETS	1,381,210	1,231,725
DEFERRED INCOME TAXES	62,091	66,220
GOODWILL	621,020	595,756
OTHER INTANGIBLES	150,494	162,237
PENSION ASSETS	100,696	99,003
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	92,150	102,060
OTHER ASSETS	177,077	170,048
PROPERTY, PLANT AND EQUIPMENT		
Land	52,328	48,663
Buildings	656,584	615,245
Equipment	1,253,612	1,192,481
Construction in progress	88,160	114,415
	2,050,684	1,970,804
Less allowance for depreciation	(1,077,301)	(1,004,203)
	973,383	966,601
TOTAL ASSETS	$ 3,558,121	$ 3,393,650

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands of Dollars)

	July 27, 2008 (Unaudited)	October 28, 2007
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 297,628	$ 290,919
Notes payable/Short-term debt	75,000	70,000
Accrued expenses	46,901	66,000
Accrued workers compensation	28,963	27,372
Accrued marketing expenses	65,268	67,260
Employee compensation	98,267	111,051
Taxes, other than federal income taxes	0	5,454
Dividends payable	25,174	20,745
Federal income taxes	0	5,927
Current maturities of long-term debt	0	49
TOTAL CURRENT LIABILITIES	637,201	664,777
LONG-TERM DEBT less current maturities	350,000	350,005
PENSION AND POST-RETIREMENT BENEFITS	456,513	440,810
OTHER LONG-TERM LIABILITIES	91,542	53,275
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 80,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 200,000,000 shares; issued none		
Common stock, par value $.0586 a share authorized 400,000,000 shares; issued 134,860,354 shares July 27, 2008 issued 135,677,494 shares October 28, 2007	7,903	7,951
Accumulated other comprehensive loss	(65,321)	(101,811)
Retained earnings	2,080,283	1,978,643
TOTAL SHAREHOLDERS INVESTMENT	2,022,865	1,884,783
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 3,558,121	$ 3,393,650

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		Nine Months Ended	
	July 27, 2008	July 29, 2007	July 27, 2008	July 29, 2007
Net sales	$ 1,678,142	$ 1,520,005	$ 4,893,391	$ 4,528,685
Cost of products sold	1,332,448	1,196,624	3,769,039	3,499,981
GROSS PROFIT	345,694	323,381	1,124,352	1,028,704
Expenses:				
Selling and delivery	204,167	187,823	622,393	578,974
Administrative and general	47,737	41,231	135,837	123,574
TOTAL EXPENSES	251,904	229,054	758,230	702,548
Equity in earnings of affiliates	241	1,212	3,431	2,084
OPERATING INCOME	94,031	95,539	369,553	328,240
Other income and expense:				
Interest and investment (loss) income	(6,454)	1,373	(8,139)	6,078
Interest expense	(7,450)	(6,633)	(20,599)	(19,989)
EARNINGS BEFORE INCOME TAXES	80,127	90,279	340,815	314,329
Provision for income taxes	28,180	32,905	123,126	113,629
NET EARNINGS	$ 51,947	$ 57,374	$ 217,689	$ 200,700
NET EARNINGS PER SHARE:				
BASIC	$ 0.38	$ 0.42	$ 1.61	$ 1.46
DILUTED	$ 0.38	$ 0.41	$ 1.58	$ 1.44
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	135,391	137,447	135,583	137,574
DILUTED	137,055	139,414	137,447	139,564
DIVIDENDS DECLARED PER SHARE:	$ 0.185	$ 0.150	$ 0.555	$ 0.450

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

	Nine Months Ended July 27, 2008	Nine Months Ended July 29, 2007
OPERATING ACTIVITIES		
Net earnings	$ 217,689	$ 200,700
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	86,226	85,082
Amortization of intangibles	8,888	8,645
Equity in earnings of affiliates	(5,677)	(3,186)
Provision for deferred income taxes	(13,901)	(3,239)
Loss on property/equipment sales and plant facilities	1,833	617
Non-cash investment activities	12,194	(1,164)
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) Decrease in accounts receivable	(9,763)	23,926
Increase in inventories, prepaid expenses, and other current assets	(129,649)	(97,152)
(Increase) Decrease in pension assets	(131)	6,113
Increase (Decrease) in accounts payable, accrued expenses, and pension and post-retirement benefits	13,295	(72,242)
Other	2,427	7,572
NET CASH PROVIDED BY OPERATING ACTIVITIES	183,431	155,672
INVESTING ACTIVITIES		
Sale of available-for-sale securities	146,308	527,857
Purchase of available-for-sale securities	(155,207)	(527,857)
Acquisitions of businesses/intangibles	(27,175)	(13,620)
Purchases of property/equipment	(96,293)	(96,602)
Proceeds from sales of property/equipment	2,266	5,866
Decrease (Increase) in investments, equity in affiliates, and other assets	4,902	(23,826)
Dividends from affiliates	970	730
NET CASH USED IN INVESTING ACTIVITIES	(124,229)	(127,452)
FINANCING ACTIVITIES		
Proceeds from short-term debt	75,000	25,000
Principal payments on short-term debt	(70,000)	(17,576)
Principal payments on long-term debt	(54)	(6,322)
Dividends paid on common stock	(70,585)	(60,524)
Share repurchase	(56,472)	(47,982)
Other	23,147	11,203
NET CASH USED IN FINANCING ACTIVITIES	(98,964)	(96,201)
DECREASE IN CASH AND CASH EQUIVALENTS	(39,762)	(67,981)
Cash and cash equivalents at beginning of year	149,749	172,485
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 109,987	$ 104,504

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 28, 2007, 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 28, 2007.

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

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. Currently, the Company provides a standby letter of credit for obligations of an affiliated party that may arise under worker compensation claims. This guarantee provided by the Company amounted to $1,940 as of July 27, 2008.

The Company has also guaranteed a $9,000 loan of an independent farm operator. The loan arose to provide financing to develop a hog growing operation on a tract of land in Arizona, and the term of the loan runs through November 2023. Approximately $2,900 of the loan proceeds have been spent to date, with the remaining $6,100 being held in an escrow account. The Company is obligated to make payments if the farm operator fails to do so, and the Company has made immaterial payments in fiscal 2008. As there is no current intention to spend additional funds on this project, the Company estimates its maximum liability remaining under this guarantee to be approximately $2,700 plus interest.

As of July 27, 2008, these potential obligations were not reflected in the Company s consolidated statements of financial position.

New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). The pronouncement amends and expands the disclosure requirements previously required by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company expects to adopt SFAS 161 in the second quarter of fiscal 2009, and is currently assessing the impact of adopting this accounting standard.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). The pronouncement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable the users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the Company expects to adopt SFAS 141(R) at the beginning of fiscal 2010, and is currently assessing the impact of adopting this accounting standard.

In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The pronouncement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of Accounting Research Bulletin No. 51 s consolidation procedures for consistency with the requirements of SFAS 141(R). SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Therefore, the Company expects to adopt SFAS 160 at the beginning of fiscal 2010, and is currently assessing the impact of adopting this accounting standard.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The pronouncement permits entities to choose to measure many financial instruments and certain other items at fair value, which provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Therefore, the Company expects to adopt SFAS 159 at the beginning of fiscal 2009, and is currently assessing the impact of adopting this accounting standard.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). The pronouncement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Therefore, the Company expects to adopt SFAS 157 at the beginning of fiscal 2009, and is currently assessing the impact of adopting this accounting standard.

In September 2006, the FASB also issued 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 obligations, 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, and therefore the Company adopted the required provisions of this statement for the fiscal 2007 year end. 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 be required to adopt these measurement date provisions in fiscal 2009, and does not anticipate a material impact to its results of operations or financial position.

NOTE B ACQUISITIONS

On June 13, 2008, the Company purchased Boca Grande Foods, Inc. (Boca Grande) for a preliminary purchase price of $23,255 cash, including related costs. Boca Grande manufactures, sells, and distributes liquid portion products, and operates a facility in Duluth, Georgia. This acquisition will provide additional capacity, production capabilities, and customers for liquid portion products for Diamond Crystal Brands within the Specialty Foods segment, and should facilitate overall growth within the liquid portions category.

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On August 22, 2007, the Company purchased privately-held Burke Corporation (Burke) for a preliminary purchase price of $115,128 cash, including related costs. Burke 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 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 additional foodservice customers.

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

NOTE C STOCK-BASED COMPENSATION

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

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

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 27, 2008, 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 October 28, 2007	10,939	$ 28.63		
Granted	1,327	40.10		
Exercised	(1,243)	19.00		
Forfeitures	(168)	37.42		
Outstanding at July 27, 2008	10,855	$ 31.00	6.4 years	$ 65,948
Exercisable at July 27, 2008	6,289	$ 26.47	4.9 years	$ 61,718

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 2008 and 2007, is as follows:

	Three Months Ended		Nine Months Ended	
	July 27, 2008	July 29, 2007	July 27, 2008	July 29, 2007

Weighted-average grant date fair value	N/A	N/A	$ 10.38	$ 9.41
Intrinsic value of exercised options	$ 1,915	$ 2,701	$ 26,521	$ 12,503

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 27, 2008, or July 29, 2007. Weighted-average assumptions used in calculating the fair value of options granted during the first nine months of fiscal years 2008 and 2007 are as follows:

	Nine Months Ended	
	July 27, 2008	**July 29, 2007**
Risk-Free Interest Rate	4.0%	4.6%
Dividend Yield	1.8%	1.6%
Stock Price Volatility	21.0%	21.0%
Expected Option Life	8 years	7 years

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

The Company s nonvested shares vest after five years or upon retirement. A reconciliation of the nonvested shares (in thousands) as of July 27, 2008, and changes during the nine months then ended, is as follows:

	Shares	**Weighted-Average Grant-Date Fair Value**
Nonvested at October 28, 2007	54	$ 33.77
Granted	25	38.97
Vested	(2)	22.51
Nonvested at July 27, 2008	77	$ 35.72

No nonvested shares were granted or vested in the three month periods ended July 27, 2008, or July 29, 2007. 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 2008 and 2007, is as follows:

	Nine Months Ended	
	July 27, 2008	**July 29, 2007**
Weighted-average grant date fair value	$ 38.97	