Recon Technology, Ltd
Form 10-Q
May 16, 2016

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016

¨ 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 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

Cayman Islands	**Not Applicable**
(State or other jurisdiction of	(I.R.S. employer
incorporation or organization)	identification number)

1902 Building C, King Long International Mansion

No. 9 Fulin Road

Beijing 100107 China

(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer’s classes of ordinary shares, as of the latest practicable date. The Company is authorized to issue 100,000,000 ordinary shares. As of May 16, 2016, the Company has issued and outstanding 5,804,005 shares.

RECON TECHNOLOGY, LTD

FORM 10-Q

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Special Note Regarding Forward-Looking Statements

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as "look," "may," "should," "might," "believe," "plan," "expect," "anticipate," "estimate" and similar words, although so forward-looking statements are expressed differently. The accuracy of such statements may be influenced by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to the following:

- the timing of the development of future products;
- projections of revenue, earnings, capital structure and other financial items;
- statements of our plans and objectives;
- statements regarding the capabilities of our business operations;
- statements of expected future economic performance;
- statements regarding competition in our market; and
- assumptions underlying statements regarding us or our business.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

Part I Financial Information

Item 1. Financial Statements.

See the unaudited condensed consolidated financial statements following the signature page of this report, which are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our company's financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. This discussion contains certain forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors.

Overview

We are a company with limited liability incorporated in 2007 under the laws of the Cayman Islands. Headquartered in Beijing, we provide products and services to oil and gas companies and their affiliates through Nanjing Recon Technology Co. Ltd ("Nanjing Recon") and Beijing BHD Petroleum Technology Co, Ltd ("BHD"), hereafter referred to as our domestic companies (the "Domestic Companies"), which are established as variable interest entities ("VIEs") under the laws of the People's Republic of China ("PRC"). As the Company contractually controls the Domestic Companies, we serve as the center of strategic management, financial control and human resources allocation.

Through Nanjing Recon and BHD, our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) hardware products, (2) software products and (3) services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems, equipment, tools and on-site technical services.

Our Domestic Companies provide the oil and gas industry with equipment, production technologies, automation and services.

- Nanjing Recon: Nanjing Recon is a high-tech company that specializes in automation services for oilfield companies. It mainly focuses on providing automation solutions to the oil exploration industry, including monitoring wells, automatic metering to the joint station production, process monitor, and a variety of oilfield equipment and control systems.

- BHD: BHD is a high-tech company that specializes in transportation equipment and stimulation productions and services. Possessing proprietary patents and substantial industry experience, BHD has built up stable and strong working relationships with the major oilfields in China.

Recent Developments

On September 22, 2015, the Company entered into an amendment to the Company's letter agreement (the "Agreement") with Maxim Group LLC, dated January 28, 2015, pursuant to which Maxim would serve as the Company's exclusive agent in connection with a proposed at-the-market offering program by the Company of up to $10,000,000. The amendment extends the term of the Agreement for an additional six months, or until August 15, 2016, when the Company's Form S-3 will expire. As of May 16, 2016, no shares have been issued under the amended Agreement.

On December 1, 2015, the Company entered into a share purchase agreement to acquire a 100% interest in Qinghai Huayou Downhole Technologies Co., Ltd. ("QHHY"), a PRC corporation and oilfield service provider located in Qinghai province. This transaction is subject to shareholder approval and on May 2, 2016, the Company amended its proxy statement on Schedule 14A (the "Proxy Statement") to disclose all necessary information related to obtaining shareholder approval of the transaction. The Company will hold a shareholder meeting to seek approval of the Company's acquisition of QHHY after the Securities and Exchange Commission ("SEC") completes its review of the Proxy Statement.

Products and Services

We currently provide products and services to oil and gas field companies focused on the development and production of oil and natural gas. Our products and services described below correlate to the numbered stages of the oilfield production system graphical description shown below.

Our products and services include:

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces *(as shown above)*. Crude petroleum contains certain impurities that must be removed before it can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, developed and implemented a new oilfield furnace that is advanced, highly automated, reliable, easy to operate, safe and highly heat-efficient (90% efficiency).

Burner *(as shown above)*. We serve as an agent for the Unigas Burner, which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide has the following characteristics: high degree of automation, energy conservation, high turn-down ratio, high security and environmental safety.

Oil and Gas Production Improvement Techniques

Packers of Fracturing. This utility model is used in concert with the security joint, hydraulic anchor, and slide brushing of sand spray in the well. It is used for easy seat sealing and sand uptake prevention. The utility model reduces desilting volume and prevents sand-up, which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

Production Packer. At varying withdrawal points, the production packer separates different oil layers and protects the oil pipe from sand and permeation, promoting the recovery ratio.

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Sand Prevention in Oil and Water Wells. This technique processes additives that are resistant to elevated temperatures into “resin sand” which is transported to the bottom of the well via carrying fluid. The resin sand goes through the borehole, piling up and compacting at the borehole and oil vacancy layer. An artificial borehole wall is then formed, functioning as a means of sand prevention. This sand prevention technique has been adapted to more than 100 wells, including heavy oil wells, light oil wells, water wells and gas wells, with a 100% success rate and a 98% effective rate.

Water Locating and Plugging Technique. High water cut affects the normal production of oilfields. Previously, there was no sophisticated method for water locating and tubular column plugging in China. The mechanical water locating and tubular column plugging technique we have developed resolves the problem of high water cut wells. This technique conducts a self-sealing test during multi-stage usage and is reliable to separate different production sets effectively. The water location switch forms a complete set by which the water locating and plugging can be finished in one trip. The tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

Fissure Shaper. This is our proprietary product that is used along with a perforating gun to effectively increase perforation depth by between 46% and 80%, shape stratum fissures, improve stratum diversion capability and, as a result, improve our ability to locate oilfields and increase the output of oil wells.

Fracture Acidizing. We inject acid to layers under pressure, which can form or expand fissures. The treatment process of the acid is defined as fracture acidizing. The technique is mainly adapted to oil and gas wells that are blocked up relatively deeply, or oil and gas wells in low permeability zones.

Electronic Break-Down Service. This service resolves block-up and freezing problems by generating heat from the electric resistivity of the drive pipe and utilizing a loop tank composed of an oil pipe and a drive pipe. This technique saves energy and is environmentally friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Services

Pumping Unit Controller. This controller functions as a monitor to the pumping unit and also collects data for load, pressure, voltage, and startup and shutdown control.

RTU Monitor. This monitor collects gas well pressure data.

Wireless Dynamometer and Wireless Pressure Gauge. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the work load associated with cable laying.

Electric Multi-way Valve for Oilfield Metering Station Flow Control. This multi-way valve is used before the test separator to replace the existing three valve manifolds. It facilitates the electronic control of the connection of the oil lead pipeline with the separator.

Natural Gas Flow Computer System. The flow computer system is used in natural gas stations and gas distribution stations to measure flow.

Recon Supervisory Control and Data Acquisition System (“SCADA”). Recon SCADA is a system which applies to the oil well, measurement station and the union station for supervision and data collection.

EPC Service of Pipeline SCADA System. This service technique is used for pipeline monitoring and data acquisition after crude oil transmission.

EPC Service of Oil and Gas Wells SCADA System. This service technique is used for monitoring and data acquisition of oil wells and natural gas wells.

EPC Service of Oilfield Video Surveillance and Control System. This video surveillance technique is used for controlling the oil and gas wellhead area and the measurement station area.

Technique Service for “Digital oilfield” Transformation. This service includes engineering technique services such as oil and gas SCADA systems, video surveillance and control systems and communication systems.

Factors Affecting Our Business

Business Outlook

The oilfield engineering and technical service industry is generally divided into five sections: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production and (5) oilfield construction. Thus far our businesses have been involved in the completion, production and construction processes. Our management still believes we need to expand our core business, move into new markets and develop new businesses quickly for the coming years. Management anticipates there will be opportunities in new markets and our existing markets. We also believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we plan to focus on:

Measuring Equipment and Service**.** Digital oil field technology and the management of oil companies are highly regarded in the industry. We believe our oilfield SCADA system and assorted products, production managing expert software, and related technical support services will address the needs of the oil well automation system market, for which we believe there will be increasing demand over the short term and strong needs in the long term.

Gathering and Transferring Equipment**.** With more new wells developed, our management anticipates that demand for our furnaces and burners will grow as compared to last year, especially in the Qinghai Oilfield and Zhongyuan Oilfield.

New business**.** We are in the process of expanding our business through the acquisition of a down-hole service company. We also have developed new products for oilfield wastewater treatment and achieved preliminary business on this segment. Our management anticipates expanding the new business more rapidly in the coming year.

Growth Strategy

As a smaller China-focused company, our basic strategy focuses on developing our onshore oilfield business in the upstream sector of the industry. Due to the remote location and difficult environments of China's oil and gas fields, historically, foreign competitors have rarely entered those areas directly.

Large domestic oil companies have historically focused on their exploration and development businesses to earn higher margins and maintain their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management is focused on providing high quality products and services in oilfields in which we have a geographical advantage. This helps us to avoid conflicts of interest with bigger suppliers of drilling equipment while protecting our position within this market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China and improve the underdeveloped working process and management mode used by many companies by providing advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Recent Industry Developments

Affected by the worldwide decrease in oil prices, CNPC and Sinopec, mother companies of our direct clients, cut off their Capital Expenditure and production activities, resulting in a declining market and intensive competition. Management will closely monitor the situation and will seek to extend our business on the industrial chain, such as through providing more integrated services and advanced products and through growing our business from a predominantly up-ground business to include some down-hole services as well.

Factors Affecting Our Results of Operations

Our operating results in any period are subject to general conditions typically affecting the Chinese oilfield service industry including:

- Oil and gas price;
- the amount of spending by our customers, primarily those in the oil and gas industry;
- growing demand from large corporations for improved management and software designed to achieve such corporate performance;
- the procurement processes of our customers, especially those in the oil and gas industry;
- competition and related pricing pressure from other oilfield service solution providers, especially those targeting the Chinese oil and gas industry;
- the ongoing development of the oilfield service market in China; and
- inflation and other macroeconomic factors.

Unfavorable changes in any of these general conditions could negatively affect the number and size of the projects we undertake, the number of products we sell, the amount of services we provide, the price of our products and services, and otherwise affect our results of operations.

Our operating results in any period are more directly affected by company-specific factors including:

- our revenue growth, in terms of the proportion of our business dedicated to large companies and our ability to successfully develop, introduce and market new solutions and services;
- our ability to increase our revenues from both old and new customers in the oil and gas industry in China;
- our ability to effectively manage our operating costs and expenses; and
- our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to markets and industries in the oil and gas industry in China.

Critical Accounting Policies and Estimates

Estimates and Assumptions

We prepare our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which require us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this quarterly report. Significant accounting estimates reflected in our Company's consolidated financial statements include revenue recognition, allowance for doubtful accounts, inventory valuation, warrants liability, fair value of share based payments, and useful lives of property and equipment.

Consolidation of VIEs

We recognize an entity as a VIE if it either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate a VIE as our primary beneficiary when we have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. We perform ongoing assessments to determine whether an entity should be considered a VIE and whether an entity previously identified as a VIE continues to be a VIE and whether we continue to be the primary beneficiary.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Revenue Recognition

We recognize revenue when the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customer, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in a customer's acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware

Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Software

The Company sells self-developed software. For software sales, the Company recognizes revenues in accordance with the provisions of Accounting Standards Codification, Topic 985-605, "Software Revenue Recognition," and related interpretations. Revenue from software is recognized according to project contracts. Contract costs are accumulated during the periods of installation and testing or commissioning. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance statements.

Services

The Company provides services to improve software functions and system requirements on separated fixed-price contracts. Revenue is recognized when services are completed and acceptance is determined by a completion report signed by the customer.

Deferred income represents unearned amounts billed to customers related to sales contracts.

Cost of Revenues

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenue. Cost of revenues includes wages, materials, handling charges, the cost of purchased equipment and pipes, other expenses associated with manufactured products and services provided to customers, and inventory reserve. We expect cost of revenues to grow as our revenues grow. It is possible that we could incur development costs with little revenue recognition, but based upon our past history, we expect our revenues to grow.

Fair Values of Financial Instruments

The US GAAP accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable.

The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, advances to suppliers, trade accounts payable, accrued liabilities, advances from customers and notes payable approximate fair value because of the immediate or short-term maturity of these financial instruments. Long-term receivables and borrowings approximate fair value because their interest rates charged approximate the market rates for financial instruments with similar terms. The fair value of the warrants liability was determined using the Black-Scholes Model, as Level 2 inputs (See Note 13). Any changes in the assumptions that are used in the

Black-Scholes Model may increase or decrease the warrants liability from quarter to quarter. Any change in the estimate of the fair value of the warrants liability would be charged to operations.

Receivables

Trade receivables are carried at the original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Increases in our allowance for doubtful accounts would lower our net income and earnings per share.

Deferred Tax Estimates

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. Deferred tax accounting requires that we evaluate net deferred tax assets by jurisdiction to determine if these assets will more likely than not be realized. This analysis requires considerable judgment and is subject to change to reflect future events and changes in the tax laws. If an allowance is established against our deferred tax assets because they may not be fully realizable in the future, our net income and earnings per share would decrease.

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized assets more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our assets change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount. There were no impairments at June 30, 2015 and March 31, 2016. However, if impairment were required, our net income and earnings per share would decrease accordingly.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic 718, Share-Based Payment. Under the fair value recognition provisions of this topic, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight–line basis over the requisite service period for the entire award. The Company has elected mainly utilize the Black-Scholes valuation model to estimate an award’s fair value.

Recently enacted accounting pronouncements

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance makes targeted improvements to existing U.S. GAAP by: (1) Requiring equity investments to be measured at fair value with changes in fair value recognized in net income; (2) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; (3) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and. (4) Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect this update will have a material impact on the presentation of the Company's consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. All other entities must apply the new requirements for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. All entities have the option of adopting the new requirements early, including adoption in an interim period. If an entity early adopts the new requirements in an interim period, it must reflect any adjustments as of the beginning of the fiscal year that includes that interim period. The Company does not expect any material impact of this new standard on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In April 2016, the FASB released ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: *(a)* identifying performance obligations; and *(b)* the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Results of Operations

The following consolidated results of operations include the results of operations of the Company and its variable interest entities (“VIEs”), BHD and Nanjing Recon.

Our historical reporting results are not necessarily indicative of the results to be expected for any future period.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

For the three months ended March 31, 2016, oil price continued to be low, and our clients’ production activities and spending were kept at a minimum level. Thus, our operations and numbers still suffered from these adverse effects.

Revenues

	For the Three Months Ended March 31,			
	2015	2016	Increase/ **(Decrease)**	Percentage **Change**
Hardware - non-related parties	¥17,267,740	¥4,539,099	¥(12,728,641)	(73.7)%
Hardware - related parties	839,542	-	(839,542)	(100.0)%
Software - non-related parties	1,091,095	-	(1,091,095)	(100.0)%
Software - related parties	820,513	-	(820,513)	(100.0)%
Total revenues	¥20,018,890	¥4,539,099	¥(15,479,791)	(77.3)%

Our total revenues for the three months ended March 31, 2016 were approximately ¥4.5 million ($0.7 million), a decrease of approximately ¥15.5 million or 77.3% from ¥20.0 million for the three months ended March 31, 2015. This was mainly caused by a decreased demand from our clients and intensely competitive market conditions. In more detail:

1) Hardware revenue. During this quarter, both furnaces and automation products sales decreased as a result of lower demand from our clients as compared to the same period last year. Hardware revenues for the quarter of fiscal 2015 were mainly from projects we tracked a year earlier from our major clients, CNPC and Sinopec, who were

evaluating and adjusting their business plans, kept their spending lower for 2015 . As a result, there were fewer projects started, causing less revenue for the Company for the third quarter of fiscal 2016. As oil prices have rebounded a bit in the first three months of 2016, our management expects this unfavorable trend will ease but expect reduced revenue to continue for some period.

2) Software revenue. Software used in oilfield production management is highly recommended, but not essential. As a result, sales and revenue related to software may fluctuate. During the three-month period, there were no software sales.

Cost and Margin

	For the Three Months Ended March 31,			
	2015	2016	Increase / (Decrease)	Percentage Change
Total revenues	¥20,018,890	¥4,539,099	¥(15,479,791)	(77.3)%
Cost of revenues	13,770,051	2,839,120	(10,930,931)	(79.4)%
Gross profit	¥6,248,839	¥1,699,979	¥(4,548,860)	(72.8)%
Margin %	31.2%	37.5%	6.3%	

Cost of revenues. Our cost of revenues includes raw materials and costs related to the design, implementation, delivery and maintenance of products and services. All materials and components we need can be purchased or manufactured by subcontractors. Usually the prices of electronic components do not fluctuate dramatically due to market competition and will not significantly affect our cost of revenues. However, specialized equipment and incentive chemical products may be directly influenced by metal and oil price fluctuations. Additionally, the prices of some imported accessories mandated by our customers can also impact our cost. Inventory reserves for changes in price level, impairment of inventory, slow moving or other causes will also affect our cost.

Our cost of revenues decreased from approximately ¥13.8 million in the three months ended March 31, 2015 to approximately ¥2.8 million ($0.4 million) for the same period in 2016, a decrease of approximately ¥11.0 million ($1.7 million), or 79.4%. This decrease was mainly caused by lower revenue during the three months ended March 31, 2016 compared to the same period of 2015.

Gross profit. Our gross profit decreased to approximately ¥1.7 million ($0.3 million) for the three months ended March 31, 2016 from approximately ¥6.2 million for the same period in 2015 due to revenue decrease. Our gross profit as a percentage of revenue increased to 37.5% for the three months ended March 31, 2016 from 31.2% for the same period in 2015. This was mainly caused by deferred income recognized as revenue in the 2016 period with little cost accrued.

Our software and hardware revenues are detailed below:

For the Three Months Ended March 31,			
2015	2016	Increase/ **(Decrease)**	Percentage **Change**

Total revenues-hardware and software- non related parties	¥ 18,358,835	¥ 4,539,099	¥ (13,819,736)	(75.3)%
Cost of revenues -hardware and software- non related parties	13,759,652	2,839,120		

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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 135,764,226 shares April 27, 2008		
issued 135,677,494 shares October 28, 2007	7,956	7,951
Accumulated other comprehensive loss	(63,817)	(101,811)
Retained earnings	2,084,647	1,978,643
TOTAL SHAREHOLDERS INVESTMENT	2,028,786	1,884,783
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 3,471,148	$ 3,393,650

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 27, 2008	**April 29, 2007**	**April 27, 2008**	**April 29, 2007**
Net sales	$ 1,594,084	$ 1,504,597	$ 3,215,249	$ 3,008,680
Cost of products sold	1,217,445	1,158,711	2,436,591	2,303,357
GROSS PROFIT	376,639	345,886	778,658	705,323
Expenses:				
Selling and delivery	210,282	192,507	418,226	391,151
Administrative and general	42,625	40,433	88,100	82,343
TOTAL EXPENSES	252,907	232,940	506,326	473,494
Equity in earnings of affiliates	821	(31)	3,190	872
OPERATING INCOME	124,553	112,915	275,522	232,701
Other income and expense:				
Interest and investment income (loss)	3,253	2,625	(1,685)	4,705
Interest expense	(6,429)	(6,998)	(13,149)	(13,356)
EARNINGS BEFORE INCOME TAXES	121,377	108,542	260,688	224,050
Provision for income taxes	43,816	40,541	94,946	80,724
NET EARNINGS	$ 77,561	$ 68,001	$ 165,742	$ 143,326
NET EARNINGS PER SHARE:				
BASIC	$ 0.57	$ 0.49	$ 1.22	$ 1.04
DILUTED	$ 0.56	$ 0.49	$ 1.20	$ 1.03
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	135,652	137,743	135,679	137,638
DILUTED	137,620	139,711	137,643	139,639
DIVIDENDS DECLARED PER SHARE:	$ 0.185	$ 0.15	$ 0.37	$ 0.30

See notes to consolidated financial statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

	Six Months Ended April 27, 2008	Six Months Ended April 29, 2007
OPERATING ACTIVITIES		
Net earnings	$ 165,742	$ 143,326
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	57,823	56,779
Amortization of intangibles	6,148	5,863
Equity in earnings of affiliates	(4,587)	(1,466)
Provision for deferred income taxes	(8,492)	(3,013)
Loss on property/equipment sales and plant facilities	1,377	69
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	15,057	24,814
Increase in inventories, prepaid expenses, and other current assets	(85,392)	(73,348)
(Increase) Decrease in pension assets	(398)	4,330
Decrease in accounts payable, accrued expenses, and pension and post-retirement benefits	(32,346)	(74,132)
Other	243	5,564
NET CASH PROVIDED BY OPERATING ACTIVITIES	115,175	88,786
INVESTING ACTIVITIES		
Sale of available-for-sale securities	146,308	284,850
Purchase of available-for-sale securities	(155,207)	(298,625)
Acquisitions of businesses/intangibles	(3,920)	(13,618)
Purchases of property/equipment	(67,941)	(69,961)
Proceeds from sales of property/equipment	1,604	2,824
Decrease (Increase) in investments, equity in affiliates, and other assets	12,300	(21,134)
NET CASH USED IN INVESTING ACTIVITIES	(66,856)	(115,664)
FINANCING ACTIVITIES		
Proceeds from short-term debt	25,000	15,000
Principal payments on short-term debt	(70,000)	(17,576)
Principal payments on long-term debt	(54)	(6,304)
Dividends paid on common stock	(45,469)	(39,881)
Share repurchase	(21,927)	(11,706)
Other	21,538	8,858
NET CASH USED IN FINANCING ACTIVITIES	(90,912)	(51,609)
DECREASE IN CASH AND CASH EQUIVALENTS	(42,593)	(78,487)
Cash and cash equivalents at beginning of year	149,749	172,485
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 107,156	$ 93,998

See notes to consolidated financial statements

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

<u>NOTE A</u> 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.

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, as of April 27, 2008, amounted to $1,940.

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 has made an immaterial payment following the end of the 2008 second quarter. 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 April 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 currently expects to adopt SFAS 161 in the second quarter of fiscal 2009.

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 ARB 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 August 22, 2007, the Company purchased privately-held Burke Corporation (Burke) for a 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 Burke are included in the Company s consolidated statements of operations from the date of acquisition. Pro forma results are not presented, as the acquisition is not considered material 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 April 27, 2008, and changes during the six months then ended, is as follows:

	Shares		Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at 10/28/07	10,939	$	28.63			
Granted	1,327		40.10			
Exercised	(1,118)		18.73			
Forfeitures	(114)		37.42			
Outstanding at 4/27/08	11,034	$	30.92	6.6 years	$	96,131
Exercisable at 4/27/08	6,414	$	26.37	5.1 years	$	84,675

The weighted-average grant-date fair value of stock options granted, and the total intrinsic value of options exercised during the first three and six months of fiscal years 2008 and 2007, is as follows:

	Three Months Ended				Six Months Ended			
		April 27, 2008		April 29, 2007		April 27, 2008		April 29, 2007
Weighted-average grant date fair value	$	9.67	$	11.28	$	10.38	$	9.40
Intrinsic value of exercised options	$	10,911	$	2,720	$	24,606	$	9,802

The fair value of each ordinary option award is calculated on the date of grant using the Black-Scholes valuation model. The fair value of the one-time option award made to all active, full-time employees during the first quarter of fiscal 2007 was calculated using a lattice-based model due to the inclusion of the performance condition that could accelerate vesting. Weighted-average assumptions used in calculating the fair value of options granted during first three and six months of fiscal years 2008 and 2007 are as follows:

Three Months Ended		Six Months Ended	
April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007

Risk-Free Interest Rate	3.7%	4.9%	4.0%	4.6%
Dividend Yield	1.9%	1.6%	1.8%	1.6%
Stock Price Volatility	21.0%	21.0%	21.0%	21.0%
Expected Option Life	8 years	8 years	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 April 27, 2008, and changes during the six months then ended, is as follows:

	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at 10/28/07	54	$	33.77
Granted	25		38.97
Vested	(2)		22.51
Nonvested at 4/27/08	77	$	35.72

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 three and six months of fiscal years 2008 and 2007, is as follows:

	Three Months Ended				Six Months Ended			
		April 27, 2008		April 29, 2007		April 27, 2008		April 29, 2007
Weighted-average grant date fair value	$	38.97	$	37.92	$	38.97	$	37.92
Fair value of nonvested shares granted	$	974	$	1,043	$	974	$	1,043
Fair value of shares vested	$	43	$	25	$	43	$	1,813

Stock-based compensation expense, along with the related income tax benefit, for the first three and six months of fiscal years 2008 and 2007 is presented in the table below.

	Three Months Ended				Six Months Ended			
		April 27, 2008		April 29, 2007		April 27, 2008		April 29, 2007
Stock-based compensation expense recognized	$	3,233	$	2,802	$	9,578	$	10,066
Income tax benefit recognized		(1,235)		(1,065)		(3,658)		(3,826)
After-tax stock-based compensation expense	$	1,998	$	1,737	$	5,920	$	6,240

At April 27, 2008, there was $22,086 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 3.0 years. During the quarter and six months ended April 27, 2008, cash received from stock option exercises was $1,989 and $10,739, compared to $1,492 and $4,371 for the quarter and six months ended April 29, 2007. The total tax benefit to be realized for tax deductions from these option exercises for the quarter and six months ended April 27, 2008, was $4,167 and $9,397, respectively, compared to $1,034 and $3,726 in the comparable periods in fiscal

2007. The amounts reported for tax deductions for option exercises in the quarter and six months ended April 27, 2008 include $4,134 and $9,103, respectively, of excess tax benefits compared to $1,023 and $3,588, respectively, of excess tax benefits last year, which are included in Other under financing activities on the Consolidated Statements of Cash Flows (with an offsetting amount in other operating activities).

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

NOTE D GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three and six month periods ended April 27, 2008, are presented in the tables below. Additions and adjustments during fiscal 2008 relate to the Burke acquisition.

	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of January 27, 2008	$ 123,364	$ 77,442	$ 203,214	$ 194,724	$ 674	$ 599,418
Goodwill acquired		2,807				2,807
Purchase adjustments		2,279				2,279
Balance as of April 27, 2008	$ 123,364	$ 82,528	$ 203,214	$ 194,724	$ 674	$ 604,504

	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	All Other	Total
Balance as of October 28, 2007	$ 123,364	$ 73,780	$ 203,214	$ 194,724	$ 674	$ 595,756
Goodwill acquired		3,653				3,653
Purchase adjustments		5,095				5,095
Balance as of April 27, 2008	$ 123,364	$ 82,528	$ 203,214	$ 194,724	$ 674	$ 604,504

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented below.

	April 27, 2008		October 28, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Proprietary software & technology	$ 23,190	$ (7,564)	$ 23,190	$ (6,168)
Customer lists/relationships	20,959	(5,766)	23,769	(4,570)
Formulas & recipes	20,364	(10,460)	20,364	(9,360)
Non-compete covenants	19,660	(15,639)	19,660	(14,040)
Distribution network	4,120	(1,921)	4,120	(1,715)
Other intangibles	8,283	(3,262)	11,756	(6,183)
Total	$ 96,576	$ (44,612)	$ 102,859	$ (42,036)

Amortization expense was $2,900 and $6,148 for the three and six months ended April 27, 2008, respectively, compared to $2,925 and $5,863 for the three and six months ended April 29, 2007.

Estimated annual amortization expense for the five fiscal years after October 28, 2007, is as follows:

2008	$	11,486
2009		9,877
2010		8,769
2011		7,319
2012		6,886

The carrying amounts for indefinite-lived intangible assets are presented in the table below.

	April 27, 2008	October 28, 2007
Brands/tradenames/trademarks	$ 93,430	$ 93,430
Other intangibles	7,984	7,984
Total	$ 101,414	$ 101,414

NOTE E SHIPPING AND HANDLING COSTS

Shipping and handling costs are recorded as selling and delivery expenses. Shipping and handling costs were $112,687 and $222,015 for the three and six months ended April 27, 2008, respectively, compared to $101,587 and $203,963 for the three and six months ended April 29, 2007.

NOTE F EARNINGS PER SHARE DATA

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

	Three Months Ended		Six Months Ended	
	April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007
Basic weighted-average shares outstanding	135,652	137,743	135,679	137,638
Dilutive potential common shares	1,968	1,968	1,964	2,001
Diluted weighted-average shares outstanding	137,620	139,711	137,643	139,639

NOTE G COMPREHENSIVE INCOME

Components of comprehensive income, net of taxes, are:

	Three Months Ended		Six Months Ended	
	April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007
Net earnings	$ 77,561	$ 68,001	$ 165,742	$ 143,326
Other comprehensive income (loss):				
Unrealized loss on available-for- sale securities	0	0	0	(381)
Deferred gain (loss) on hedging	11,855	(5,421)	33,720	(4,810)
Reclassification adjustment into net earnings	(5,290)	488	(5,066)	1,718

Foreign currency translation	271	459	5,052	1,773
Pension and post-retirement benefits	2,145	0	4,288	0
Other comprehensive income (loss)	8,981	(4,474)	37,994	(1,700)
Total comprehensive income	$ 86,542	$ 63,527	$ 203,736	$ 141,626

At the end of the 2007 fiscal year, on October 28, 2007, the Company adopted the provisions of 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). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its statement of financial position, and recognize through comprehensive income changes in that funded status in the year in which the changes occur. See Note F of the Notes to Consolidated Financial Statements included in the Company s 2007 Annual Report on Form 10-K for a further description of the effect of adopting SFAS No. 158.

NOTE H INVENTORIES

Principal components of inventories are:

		April 27, 2008		October 28, 2007
Finished products	$	392,854	$	335,863
Raw materials and work-in-process		223,703		187,626
Materials and supplies		133,926		123,479
Total	$	750,483	$	646,968

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 loss and reclassified into earnings, through cost of products sold (commodity positions) or net sales (currency futures), in the period or periods in which the hedged transactions affect earnings. The Company typically does not hedge its grain and currency exposure beyond 24 months and its natural gas exposure beyond 36 months.

As of April 27, 2008, the Company has included in accumulated other comprehensive loss, hedging gains of $30,913 (net of tax) relating to its positions. The Company expects to recognize the majority of these gains over the next 12 months. Gains in the amount of $8,496 and $8,130, before tax, were reclassified into earnings in the three and six months ending April 27, 2008, respectively, compared to losses of $777 and $2,759, before tax, in the three and six months ended April 29, 2007. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges.

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

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

As of April 27, 2008, the fair value of the Company s futures contracts included on the statement of financial position was $(24,733). Losses on closed futures contracts in the amount of $6,280 and $1,830, before tax, were recognized in earnings during the three and six months ended April 27, 2008, compared to losses of $5,353 and $13,304, before tax, in the same periods of fiscal 2007. There were no gains or losses recognized into earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

Other: During the second quarter of fiscal 2008, the Company held certain futures contract and swap positions as part of a merchandising program designed to enhance margins. The Company has not applied hedge accounting to these positions. During the three and six months ended April 27, 2008, the Company recorded a charge of $448 and $892, respectively, through cost of products sold to record these contracts at their fair value.

NOTE J **PENSION AND OTHER POST-RETIREMENT BENEFITS**

Net periodic benefit cost for pension and other post-retirement benefit plans consists of the following:

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007
Service cost	$ 5,032	$ 4,750	$ 10,015	$ 9,500
Interest cost	11,074	10,637	22,331	21,275
Expected return on plan assets	(14,203)	(13,376)	(28,350)	(26,752)
Amortization of prior service cost	(38)	(29)	(76)	(58)
Recognized actuarial loss	1,317	1,466	2,633	2,932
Net periodic cost	$ 3,182	$ 3,448	$ 6,553	$ 6,897

	Post-retirement Benefits			
	Three Months Ended		Six Months Ended	
	April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007
Service cost	$ 682	$ 748	$ 1,364	$ 1,496
Interest cost	5,649	5,767	11,299	11,534
Amortization of prior service cost	1,454	1,433	2,908	2,866
Recognized actuarial loss	736	923	1,472	1,845
Net periodic cost	$ 8,521	$ 8,871	$ 17,043	$ 17,741

NOTE K **INCOME TAXES**

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.

The Company adopted the provisions of FIN 48 at the beginning of fiscal 2008, on October 29, 2007. The adoption of FIN 48 resulted in a $13,863 increase in the liability for uncertain tax positions (resulting in a total liability balance of $32,272), a $4,878 increase in deferred tax assets, and a decrease in retained earnings of $8,985.

The amount of unrecognized tax benefits, including interest and penalties, at April 27, 2008, recorded in other long-term liabilities is $37,463, of which $24,423 would impact the Company s effective tax rate if recognized. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense, with $838 and $1,676 included in expense in the second quarter and first six months of fiscal 2008, respectively. The amount of accrued interest and penalties at April 27, 2008, associated with unrecognized tax benefits is $8,145.

The Company is regularly audited by federal and state taxing authorities. During fiscal year 2007, the United States Internal Revenue Service (IRS) concluded its examination of the Company s consolidated federal income tax returns for the fiscal years through 2005. The Company is not currently under examination by the IRS. The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 1996. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to estimate the amount of any such change to previously recorded uncertain tax positions.

The effective tax rate for the second quarter and first six months of fiscal 2008 was 36.1 and 36.4 percent, respectively, compared to 37.4 and 36.0 percent for the comparable periods of fiscal 2007. The lower rate for the second quarter is primarily due to discrete events in 2007 related to unfavorable prior period audit settlements.

NOTE L **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 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.

The Refrigerated Foods segment includes the Hormel Refrigerated, Farmer John, and Dan s Prize operating segments. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. Results for the Hormel Refrigerated operating segment include the Precept Foods business which offers a variety of case-ready beef and pork products to retail customers. Precept Foods, LLC, is a 51 percent owned joint venture between Hormel Foods Corporation and Cargill Meat Solutions Corporation, a wholly-owned subsidiary of Cargill, Incorporated.

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, liquid portion products, ready-to-drink products, 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.

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.

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

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

	Three Months Ended		Six Months Ended	
	April 27, 2008	April 29, 2007	April 27, 2008	April 29, 2007
Sales to Unaffiliated Customers				
Grocery Products	$ 233,464	$ 223,625	$ 460,879	$ 429,841
Refrigerated Foods	831,821	796,339	1,689,281	1,594,311
Jennie-O Turkey Store	291,889	270,044	583,338	546,658
Specialty Foods	182,534	169,069	371,321	346,148
All Other	54,376	45,520	110,430	91,722
Total	$ 1,594,084	$ 1,504,597	$ 3,215,249	$ 3,008,680
Intersegment Sales				
Grocery Products	$ 0	$ 0	$ 0	$ 0
Refrigerated Foods	1,114	839	1,979	1,129
Jennie-O Turkey Store	24,177	25,472	45,988	44,640
Specialty Foods	23	50	118	76
All Other	0	0	0	0
Total	$ 25,314	$ 26,361	$ 48,085	$ 45,845
Intersegment elimination	(25,314)	(26,361)	(48,085)	(45,845)
Total	$ 0	$ 0	$ 0	$ 0
Net Sales				
Grocery Products	$ 233,464	$ 223,625	$ 460,879	$ 429,841
Refrigerated Foods	832,935	797,178	1,691,260	1,595,440
Jennie-O Turkey Store	316,066	295,516	629,326	591,298
Specialty Foods	182,557	169,119	371,439	346,224
All Other	54,376	45,520	110,430	91,722
Intersegment elimination	(25,314)	(26,361)	(48,085)	(45,845)
Total	$ 1,594,084	$ 1,504,597	$ 3,215,249	$ 3,008,680
Segment Operating Profit				
Grocery Products	$ 41,611	$ 39,194	$ 77,980	$ 72,178
Refrigerated Foods	55,625	44,187	118,431	86,129
Jennie-O Turkey Store	11,708	13,949	46,512	43,920
Specialty Foods	15,513	16,281	33,806	34,323
All Other	5,843	4,866	14,868	11,340
Total segment operating profit	$ 130,300	$ 118,477	$ 291,597	$ 247,890
Net interest and investment income	(3,176)	(4,373)	(14,834)	(8,651)
General corporate expense	(5,747)	(5,562)	(16,075)	(15,189)
Earnings before income taxes	$ 121,377	$ 108,542	$ 260,688	$ 224,050

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

Beginning in fiscal 2008, Hormel Foods Corporation (the Company) adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). In accordance with FIN 48, the Company recognizes a tax position in its financial statements when it is more likely than not that the position will be sustained upon examination, based on the technical merits of the position. That position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. See further discussion regarding the impact of adopting FIN 48 in Note K of the Notes to Consolidated Financial Statements in this Form 10-Q.

There have been no other material changes in the Company s Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the year ended October 28, 2007.

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 L in the Notes to Consolidated Financial Statements in this Form 10-Q.

The Company earned $0.56 per diluted share in the second quarter of fiscal 2008, compared to $0.49 per diluted share in the second quarter of fiscal 2007. Significant factors impacting the quarter were:

- Net sales and tonnage growth was reported by all five segments of the Company.
- Refrigerated Foods operating profits increased significantly due to lower pork input costs and strong sales of value-added products.
- Grocery Products also showed improved profit results, driven by sales growth on the *SPAM* family of products and *Hormel Compleats* microwave meals.
- The Jennie-O Turkey Store segment reported operating profit declines, reflecting continued high grain and fuel related costs during the quarter.
- Specialty Foods also reported lower profit results due to higher input costs and lower volumes in the Hormel Specialty Products and Diamond Crystal Brands operating segments.

Consolidated Results

Net earnings for the second quarter of fiscal 2008 increased 14.1 percent to $77,561 compared to $68,001 in the same quarter of 2007. Diluted earnings per share for the quarter increased 14.3 percent to $0.56 from $0.49 last year. Net earnings for the first six months of 2008 increased 15.6 percent to $165,742 from $143,326 in 2007. Diluted earnings per share for the same period increased 16.5 percent to $1.20 from $1.03 in the prior year.

Net sales for the second quarter of fiscal 2008 increased 5.9 percent to $1,594,084 from $1,504,597 in 2007. Tonnage increased 4.8 percent to 1,148 million lbs. for the second quarter compared to 1,096 million lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2008 increased 6.9 percent to $3,215,249 from $3,008,680 in the first six months of fiscal 2007. Tonnage for the six months increased 5.0 percent to 2,330 million lbs. compared to 2,219 million lbs. in 2007. Both value-added sales growth and additional commodity meat sales drove top-line results for fiscal 2008.

Net sales and tonnage comparisons for the quarter were positively impacted by the fourth quarter 2007 acquisition of Burke Corporation (Burke), and year to date comparisons also benefited from the first quarter 2007 acquisition of Provena Foods Inc. (Provena). These acquisitions contributed an incremental $29,764 of net sales and 19.6 million lbs. of tonnage to the second quarter results, and $68,731 of net sales and 48.9 million lbs. of tonnage to the six month results. Excluding the impact of these acquisitions, net sales and tonnage increased 4.0 percent and 3.0 percent, respectively, compared to the second quarter of fiscal 2007, and increased 4.6 percent and 2.8 percent, respectively, compared to the first six months of last year.

Gross profit for the second quarter and first six months of fiscal 2008 was $376,639 and $778,658, respectively, compared to $345,886 and $705,323 for the same periods last year. Gross profit as a percentage of net sales for the second quarter and six months increased to 23.6 and 24.2 percent in 2008, from 23.0 and 23.4 percent for the comparable quarter and six months of fiscal 2007. Gross profit gains were primarily driven by the Refrigerated Foods segment due to lower hog input costs throughout the second quarter and first six months. Increased results in that segment were able to offset declines in the Jennie-O Turkey Store segment, which continued to struggle with rising grain and fuel-related costs. Value-added growth and cost containment initiatives across all segments also strengthened margins in fiscal 2008. With corn futures near the $6.00 per bushel level and hog input costs rising significantly, the Company will continue to pursue additional pricing actions and operational efficiencies throughout the remainder of fiscal 2008 to recover additional costs, where possible.

Selling and delivery expenses for the second quarter and first six months of fiscal 2008 were $210,282 and $418,226, respectively, compared to $192,507 and $391,151 last year. This increase is primarily due to higher shipping and handling costs of $11,100 and $18,052 for the second quarter and first six months, respectively, over the same periods in fiscal 2007. Ongoing increases in fuel-related costs have driven freight and warehousing expenses above the prior year across all segments of the Company. Brokerage fees have also increased compared to fiscal 2007. As a percentage of net sales, selling and delivery expenses increased to 13.2 percent for the second quarter of fiscal 2008 compared to 12.8 percent in the comparable quarter of fiscal 2007. For the first six months, selling and delivery expenses were 13.0 percent of net sales, even with the prior year. Within this category, the Company s advertising expenses were 1.7 percent of net sales for both the second quarter and first six months, consistent with prior year levels. However, advertising for the *Hormel Compleats* product line is scheduled for the third quarter, and several other media campaigns are planned which should drive advertising expense for the full fiscal year above 2007 levels. The Company expects overall selling and delivery expenses to exceed prior year levels for the remainder of fiscal 2008, primarily due to continued higher freight and warehousing costs.

Administrative and general expenses were $42,625 and $88,100 for the second quarter and first six months, respectively, compared to $40,433 and $82,343 last year. As a percentage of net sales, administrative and general expenses for both the quarter and first six months were 2.7 percent, flat compared to prior year percentages. Increased expense for both the quarter and first six months is primarily due to higher professional service expenses and accruals related to the Company s incentive plans. Favorable pension and insurance experience has offset a portion of those additional expenses. The Company expects administrative and general expenses to remain at current levels for the remainder of fiscal 2008.

Equity in earnings of affiliates was $821 and $3,190 for the second quarter and first six months, respectively, compared to $(31) and $872 last year. Increases for both the quarter and first six months were reported across several of the Company s joint ventures. The most notable gains were seen on the Company s 49.0 percent owned joint venture, Carapelli USA, LLC, and the Company s 49.0 percent owned joint venture, San Miguel Purefoods (Vietnam) Co. Ltd. Minority interests in the Company s consolidated investments are also reflected in these figures, resulting in decreased earnings of $406 and $803 for the second quarter and first six months, respectively, compared to the prior year.

The effective tax rate for the second quarter and first six months of fiscal 2008 was 36.1 and 36.4 percent, respectively, compared to 37.4 and 36.0 percent for the comparable quarter and six months of fiscal 2007. The lower rate for the second quarter is primarily due to discrete events in 2007 related to unfavorable prior period audit settlements. The Company expects a full-year effective tax rate between 36.0 and 36.5 percent for fiscal 2008.

Segment Results

Net sales and operating profits for each of the Company s segments 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. Additional segment financial information can be found in Note L of the Notes to Consolidated Financial Statements in this Form 10-Q.

	Three Months Ended			Six Months Ended		
	April 27, 2008	April 29, 2007	% Change	April 27, 2008	April 29, 2007	% Change
Net Sales						
Grocery Products	$ 233,464	$ 223,625	4.4	$ 460,879	$ 429,841	7.2
Refrigerated Foods	831,821	796,339	4.5	1,689,281	1,594,311	6.0
Jennie-O Turkey Store	291,889	270,044	8.1	583,338	546,658	6.7
Specialty Foods	182,534	169,069	8.0	371,321	346,148	7.3
All Other	54,376	45,520	19.5	110,430	91,722	20.4
Total	$ 1,594,084	$ 1,504,597	5.9	$ 3,215,249	$ 3,008,680	6.9
Segment Operating Profit						
Grocery Products	$ 41,611	$ 39,194	6.2	$ 77,980	$ 72,178	8.0
Refrigerated Foods	55,625	44,187	25.9	118,431	86,129	37.5
Jennie-O Turkey Store	11,708	13,949	(16.1)	46,512	43,920	5.9
Specialty Foods	15,513	16,281	(4.7)	33,806	34,323	(1.5)
All Other	5,843	4,866	20.1	14,868	11,340	31.1
Total segment operating profit	$ 130,300	$ 118,477	10.0	$ 291,597	$ 247,890	17.6
Net interest and investment income	(3,176)	(4,373)	27.4	(14,834)	(8,651)	(71.5)
General corporate expense	(5,747)	(5,562)	(3.3)	(16,075)	(15,189)	(5.8)
Earnings before income taxes	$ 121,377	$ 108,542	11.8	$ 260,688	$ 224,050	16.4

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.

Grocery Products net sales increased 4.4 percent for the second quarter and 7.2 percent for the first six months compared to the same fiscal 2007 periods. Tonnage was flat for the second quarter and up 3.3 percent for the first six months compared to the prior year. Segment profit for Grocery Products increased 6.2 percent for the second quarter and 8.0 percent for the six months compared to the fiscal 2007.

Strong sales of the *SPAM* family of products benefited the second quarter, driven by successful promotional and advertising support, and increased distribution of *SPAM* Singles. Continued growth from the *Hormel Compleats* microwave tray line also contributed to the positive results. Additional promotional support and the rollout of new products for this line (which meet the required U.S.D.A. guidelines to be considered a healthy product) are expected to continue the momentum for these products in upcoming quarters. Net sales increases from the prior year were also noted on *Hormel* chili and *Dinty Moore* stew. However, *Valley Fresh* chunk meats and *Chi-Chi s* sauces declined during the quarter compared to fiscal 2007. The Company recently began the rollout of reformulated *Chi-Chi s* sauces with new packaging and advertising, and is optimistic about the success of these initiatives.

The Grocery Products segment has experienced cost pressures during fiscal 2008 related to fuel, protein, packaging, and other ingredients, and expects these expense increases to continue. Pricing actions were taken during the second quarter on certain product lines to recover a portion of these costs, and the Company will continue to pursue pricing and cost saving initiatives where appropriate during the remainder of the fiscal year.

Refrigerated Foods

The Refrigerated Foods segment includes the Hormel Refrigerated, Farmer John, and Dan s Prize operating segments. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. Results for the Hormel Refrigerated operating segment include the Precept Foods business which offers a variety of case-ready beef and pork products to retail customers. Precept Foods, LLC, is a 51 percent owned joint venture between Hormel Foods Corporation and Cargill Meat Solutions Corporation, a wholly-owned subsidiary of Cargill, Incorporated.

Net sales by the Refrigerated Foods segment increased 4.5 percent for the second quarter and 6.0 percent for the first six months of fiscal 2008, compared to the same periods of fiscal 2007. Tonnage increased 4.2 percent and 6.3 percent for the second quarter and first six months, respectively, compared to last year. Net sales and tonnage comparisons for the quarter were positively impacted by the fourth quarter 2007 acquisition of Burke, and year to date comparisons also benefited from the first quarter 2007 acquisition of Provena. These acquisitions contributed an incremental $29,764 of net sales and 19.6 million lbs. of tonnage to the second quarter results, and $68,731 of net sales and 48.9 million lbs. of tonnage to the six month results. Excluding the impact of these acquisitions, net sales and tonnage were flat compared to the second quarter of fiscal 2007, and increased 1.6 percent and 2.2 percent, respectively, compared to the first six months of last year.

Segment profit for Refrigerated Foods increased 25.9 and 37.5 percent for the second quarter and first six months, respectively, compared to the prior year. Lower pork input costs and strong sales growth on value-added product lines drove these significant profit increases. The Company s hog processing for the second quarter increased slightly to 2,378,000 hogs from 2,368,000 hogs for the comparable period last year. Hog processing has increased 1.8 percent in the first six months of fiscal 2008, as compared to the prior year. For the second quarter, the Company s actual live hog cost decreased to $43 per live hundred-weight compared to $48 per live hundred-weight in the second quarter of fiscal 2007. Entering the third quarter, a rapid increase in hog prices has occurred. However, the Company is still anticipating favorable supply conditions and expects overall prices for the third quarter, and our related hog costs, to be consistent with prior year levels.

The Meat Products and Foodservice business units benefited significantly from the lower input costs experienced throughout the second quarter. A more profitable product mix also contributed to gains for the Meat Products processed business (retail and deli). Particularly strong were sales on key product lines, including *Hormel Natural Choice* lunchmeats, *Hormel* refrigerated entrees, and *DiLusso Deli Company* products. The Foodservice unit continues to be impacted by decreased consumer spending driven by higher fuel and retail food prices. Although sales declined slightly compared to the prior year, the Company was able to recover a portion of decreased sales in the casual dining segment by pursuing other channels. Sales remained strong on premium hams, deli meats, turkey, and the BBQ/*café h* category. The current consumer spending trends are expected to continue into the second half of fiscal 2008 and input costs are rising entering the third quarter, which may impact margins in these business units going forward.

Farmer John net sales and profit increased from the second quarter of fiscal 2007. The fresh pork and foodservice business units were key contributors to the improved results. The Company s hog production facilities continued to struggle with higher input costs and low hog markets, which offset a portion of the gains achieved in these other areas.

Dan s Prize, the Company s wholly owned marketer and seller of beef products, reported a net sales decline for the second quarter. This decrease reflected a weaker demand for beef due to large supplies of competitive proteins. Operating profit also declined compared to the prior year, as the Company faced increased raw material costs due to reduced harvest rates and competitive pressures on key product lines.

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 8.1 percent for the second quarter and 6.7 percent for the first six months versus the comparable periods of fiscal 2007. Tonnage increased 8.7 percent for the second quarter and 5.8 percent for the first six months, compared to fiscal 2007 results. Despite a decrease in tonnage, value-added net sales increased 6.2 percent for the second quarter compared to fiscal 2007, reflecting pricing actions taken in prior quarters and improvements in customer and product mix during 2008. The gains in both net sales and tonnage were also due to increased commodity meat sales, driven by higher harvest volumes and improved bird weights compared to the prior year.

Segment profit for JOTS decreased 16.1 percent for the second quarter and increased 5.9 percent for the first six months of fiscal 2008 compared to the prior year. Higher feed costs and feed-related grow partner costs continued to negatively impact profits. These costs increased approximately $39,400 compared to the prior year second quarter, and could not be fully recovered through pricing, hedging programs, or other initiatives. Higher propane costs for heating turkey facilities have also begun to have a significant impact on results. Although commodity volume was better than the prior year, input costs increases exceeded pricing improvements in this area, which further reduced profit results.

As noted, value-added net sales continued to grow during the second quarter. Increased sales were noted on *Jennie-O Turkey Store* marinated tenderloins, turkey burgers, rotisserie deli products, and the retail tray pack product line. Gains on these items offset declines in other retail product lines, including *Jennie-O Turkey Store* pan roasts and turkey franks.

Higher grain and fuel-related costs are expected to continue throughout fiscal 2008, which may further reduce profits in the second half of the year for this segment. JOTS will continue to pursue value-added growth, pricing initiatives, and other efficiencies where possible to recover a portion of the increased expenses. Additionally, the Company expects to reduce turkey poult placements by approximately 5.0 percent over the upcoming months, which should result in lower production levels by the beginning of fiscal 2009.

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, liquid portion products, ready-to-drink products, 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 Foods net sales increased 8.0 percent for the second quarter and 7.3 percent for the first six months of fiscal 2008, compared to the same periods of fiscal 2007. Tonnage increased 5.5 percent for the quarter and remained flat for the six months, compared to the prior year. The top-line growth was primarily due to increased sales of nutritional jar and ready-to-drink products at CFI. Nutritional products and liquid portions also had notable gains at DCB.

Specialty Foods segment profit decreased 4.7 percent in the second quarter and 1.5 percent for the first six months, compared to 2007 results. Margins for HSP decreased due to higher input costs on several key items, as well as decreased dry sausage volumes during the quarter. DCB faced higher sugar costs following an explosion at the plant of their primary sugar supplier, and higher milk-based ingredient costs also negatively impacted their results for the second quarter. Additional pricing actions were taken in March to offset a portion of the cost increases. Significantly higher sales of nutritional jar and ready-to-drink products at CFI did result in profit improvements compared to fiscal 2007. However, those increases were not enough to offset the declines in the other two operating segments.

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.

All Other net sales increased 19.5 percent for the quarter and 20.4 percent for the first six months, compared to the comparable fiscal 2007 periods. Segment profit increased 20.1 and 31.1 percent for the quarter and first six months, respectively, compared to prior year results. Strong export sales and margins on both the *SPAM* family of products and fresh pork drove improved results for HFI. Operating profit results for the Company s China operations declined for the quarter, reflecting higher hog input costs and lower export volumes compared to fiscal 2007.

Unallocated Income and Expenses

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

Net interest and investment income for the second quarter and first six months of fiscal 2008 was a net expense of $3,176 and $14,834, respectively, compared to a net expense of $4,373 and $8,651 for the comparable quarter and six months of fiscal 2007. Investment returns on the Company s rabbi trust for supplemental executive retirement plans and deferred income plans increased by $721 for the second quarter, but decreased $5,576 for the first six months compared to the prior year. Interest expense of $6,429 and $13,149 for the second quarter and first six months of 2008 is slightly below prior year levels, and the Company anticipates that interest expense will approximate $26,000 for fiscal 2008.

General corporate expense for the second quarter and first six months was $5,747 and $16,075, respectively, compared to $5,562 and $15,189 for the comparable periods of fiscal 2007. Increased expense for both the quarter and first six months is primarily due to higher professional service expenses and accruals related to the Company s incentive plans. Favorable pension and insurance experience has offset a portion of those additional expenses.

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 28, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Selected financial ratios at the end of the second quarter of fiscal years 2008 and 2007 are as follows:

	End of Quarter 2nd Quarter 2008	2nd Quarter 2007
Liquidity Ratios		
Current ratio	2.4	2.2
Receivables turnover	17.9	18.1
Days sales in receivables	19.9	19.5
Inventory turnover	7.0	7.6
Days sales in inventory	56.1	50.4
Leverage Ratio		
Long-term debt (including current maturities) to equity	17.3%	18.3%
Operating Ratios		
Pretax profit to net worth	26.6%	24.1%
Pretax profit to total assets	15.2%	14.5%

Cash, cash equivalents, and short-term marketable securities were $107,156 at the end of the second quarter of fiscal year 2008 compared to $107,773 at the end of the comparable fiscal 2007 period.

Cash provided by operating activities was $115,175 in the first six months of fiscal 2008 compared to $88,786 in the same period of fiscal 2007. The increase in cash provided by operating activities reflects higher earnings and changes in working capital, including significantly higher cash balances related to the Company s hedging programs and favorable timing differences related to federal tax payments. These increases were partially offset by substantially higher inventory balances maintained during fiscal 2008.

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

Cash used in investing activities decreased to $66,856 from $115,664 in the first six months of fiscal 2007. 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 processing business in Vietnam. Additionally, $13,618 was used in the first six months of fiscal 2007 related to acquisition activity, compared to only $3,920 in the first six months of fiscal 2008. Fixed asset expenditures were $67,941 for the first six months of fiscal 2008 compared to $69,961 in the comparable period of fiscal 2007. The Company estimates its fiscal 2008 fixed asset expenditures to be $140,000 to $150,000, as several expansion projects are either in process or planned to meet demand for value-added products.

As of April 27, 2008, the Company held $8,899 of available-for-sale investments in auction rate securities. These securities were reclassified from current to other non-current assets, as current credit market conditions caused the auction events for these securities to fail during the second quarter. As the auction rate securities held represent student loan receivables that are guaranteed by the U.S. government, the Company considers any current decline in value to be temporary and will continue to monitor the status of these securities in upcoming quarters.

Cash used in financing activities was $90,912 in the first six months of fiscal 2008 compared to $51,609 in the same period of fiscal 2007. The variance in cash flow includes $36,174 of higher net payments on debt in fiscal 2008, primarily due to repayment of a short-term debt balance related to the Burke acquisition. Additionally, the Company used $21,927 for common stock repurchases in first six months of fiscal 2008, compared to $11,706 in the prior year. 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. Increased cash flows generated from the Company s stock option plan offset a portion of these outflows during fiscal 2008.

Cash dividends paid to the Company s shareholders also continue to be a significant financing activity for the Company. Dividends paid in the first six months of 2008 were $45,469 compared to $39,881 in the comparable period of fiscal 2007. For fiscal 2008, the annual dividend rate has been increased to $0.74 per share, reflecting a 23.3 percent increase over the 2007 rate. The Company has paid dividends for 319 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and balance sheet position. At the end of the second quarter of fiscal 2008, the Company was in compliance with all of these debt covenants.

Contractual Obligations and Commercial Commitments

As discussed in Note K of the Notes to Consolidated Financial Statements, the Company adopted the provisions of FIN 48 at the beginning of fiscal 2008. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits at April 27, 2008, is $37,463.

There have been no other material changes to 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 28, 2007.

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. The Company has also guaranteed a $9,000 loan of an independent farm operator, of which approximately $2,900 of the loan proceeds have been spent to date. As of April 27, 2008, these potential obligations were not reflected on the Company s consolidated statements of financial position. See additional information regarding these off-balance sheet arrangements in Note A of the Notes to Consolidated Financial Statements in this Form 10-Q.

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.

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 92 percent and 88 percent of the total hogs purchased by the Company through the first six months of fiscal 2008 and 2007, respectively. The Company has converted the majority of its contracts to market-based formulas in order to better match input costs with customer pricing. Therefore, a hypothetical 10 percent change in the cash market would have had an immaterial effect on the Company s results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the statement of financial position as a current asset and liability, respectively. The fair value of the Company s open futures contracts as of April 27, 2008, was $(2,896) compared to $8,240 as of October 28, 2007.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company s April 27, 2008, open contracts by $7,164, 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 $35,730, before tax, on the statement of financial position as of April 27, 2008, compared to $5,996, before tax, as of October 28, 2007.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company s April 27, 2008, open grain contracts by $20,521, 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 $8,444, before tax, on the statement of financial position as of April 27, 2008, compared to $(603), before tax, as of October 28, 2007.

The Company measures its market risk exposure on its natural gas contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for natural gas. A 10 percent decrease in the market price for natural gas would have negatively impacted the fair value of the Company s April 27, 2008, open natural gas contracts by $2,032, 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 $5,219. The fair value of the Company s long-term debt was estimated using discounted future cash flows based on the Company s incremental borrowing rate 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 Commission rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Internal Controls. During the second quarter of fiscal year 2008, 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 harvest 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 using 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, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), 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 alternative meats and protein sources, including 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 disease outbreak developed in the United States, it may negatively impact the national economy, demand for Company products, and/or the Company s workforce availability, 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 Products, Inc., Provena, and Burke, and regularly reviews opportunities for strategic growth through acquisitions. Potential risks associated with acquisitions include the inability to integrate new operations successfully, 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. Any or all of these risks could impact the Company s financial results and business reputation. In addition, acquisitions outside the United States 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 competitors, consumers, shareholders, or injured persons, and claims relating to patent infringement, 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 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 18,500 employees, of which approximately 6,400 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.

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

Issuer Purchases of Equity Securities in the Second Quarter of Fiscal 2008

Period	**Total Number of Shares Purchased(1)**		**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)**
January 28, 2008 March 2, 2008	205,089	$	37.87	205,029	3,588,079
March 3, 2008 March 30, 2008	11		44.22		3,588,079
March 31, 2008 April 27, 2008					3,588,079
Total	205,100	$	37.87	205,029	

(1) Shares repurchased during the quarter, other than through publicly announced plans or programs, represent purchases for the Company s employee awards program.

(2) 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 4. Submission of Matters to a Vote of Security Holders

The information contained in Part II, Item 4 of the Company s Form 10-Q for the quarterly period ended January 27, 2008, is incorporated herein by reference.

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: June 6, 2008	By	/s/ JODY H. FERAGEN JODY H. FERAGEN Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: June 6, 2008	By	/s/ ROLAND G. GENTZLER ROLAND G. GENTZLER Vice President and Treasurer (Duly Authorized Officer)