

GENERAL MILLS INC
Form 10-Q
March 18, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED February 22, 2009.
- 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: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-0274440
(I.R.S. Employer
Identification No.)

Number One General Mills Boulevard
Minneapolis, MN
(Mail: P.O. Box 1113)
(Address of principal executive offices)

55426
(Mail: 55440)
(Zip Code)

(763) 764-7600

(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 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of Common Stock outstanding as of March 12, 2009: 328,978,674 (excluding 48,327,990 shares held in the treasury).

General Mills, Inc.
Table of Contents

<u>PART I</u>	<u>Financial Information</u>	Page
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Statements of Earnings for the quarterly and nine-month periods ended February 22, 2009, and February 24, 2008</u>	3
	<u>Consolidated Balance Sheets as of February 22, 2009, and May 25, 2008</u>	4
	<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the nine-month period ended February 22, 2009, and the fiscal year ended May 25, 2008</u>	5
	<u>Consolidated Statements of Cash Flows for the nine-month periods ended February 22, 2009, and February 24, 2008</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4.</u>	<u>Controls and Procedures</u>	33
 <u>PART II</u>		
<u>Other Information</u>		
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 6.</u>	<u>Exhibits</u>	35
	<u>Signatures</u>	36
	<u>EX-10.1</u>	
	<u>EX-10.2</u>	
	<u>EX-10.3</u>	
	<u>EX-10.4</u>	
	<u>EX-10.5</u>	
	<u>EX-10.6</u>	
	<u>EX-10.7</u>	
	<u>EX-10.8</u>	
	<u>EX-10.9</u>	
	<u>EX-10.10</u>	
	<u>EX-10.11</u>	
	<u>EX-10.12</u>	
	<u>EX-10.13</u>	
	<u>EX-10.14</u>	
	<u>EX-10.15</u>	
	<u>EX-10.16</u>	
	<u>EX-10.17</u>	
	<u>EX-12.1</u>	
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	
	<u>EX-32.2</u>	

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL MILLS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF EARNINGS
 (Unaudited) (In Millions, Except per Share Data)

	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Net sales	\$ 3,537.4	\$ 3,405.6	\$ 11,045.6	\$ 10,181.0
Cost of sales	2,259.9	2,051.4	7,356.7	6,339.4
Selling, general, and administrative expenses	671.0	653.8	2,119.8	1,926.7
Divestiture (gain)			(128.8)	
Restructuring, impairment, and other exit costs	1.2	5.0	6.4	22.3
Operating profit	605.3	695.4	1,691.5	1,892.6
Interest, net	100.4	102.6	287.6	331.8
Earnings before income taxes and after-tax earnings from joint ventures	504.9	592.8	1,403.9	1,560.8
Income taxes	231.7	192.4	538.0	531.0
After-tax earnings from joint ventures	15.7	29.7	79.7	79.7
Net earnings	\$ 288.9	\$ 430.1	\$ 945.6	\$ 1,109.5
Earnings per share - basic	\$ 0.88	\$ 1.28	\$ 2.84	\$ 3.32
Earnings per share - diluted	\$ 0.85	\$ 1.23	\$ 2.73	\$ 3.19
Dividends per share	\$ 0.43	\$ 0.39	\$ 1.29	\$ 1.17

See accompanying notes to consolidated financial statements.

Table of Contents

GENERAL MILLS, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In Millions, Except Par Value)

	Feb. 22, 2009 (Unaudited)	May 25, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 937.3	\$ 661.0
Receivables	1,136.0	1,081.6
Inventories	1,360.6	1,366.8
Deferred income taxes	35.1	
Prepaid expenses and other current assets	419.9	510.6
Total current assets	3,888.9	3,620.0
Land, buildings, and equipment	2,973.6	3,108.1
Goodwill	6,607.5	6,786.1
Other intangible assets	3,680.4	3,777.2
Other assets	1,928.3	1,750.2
Total assets	\$ 19,078.7	\$ 19,041.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 716.1	\$ 937.3
Current portion of long-term debt	518.3	442.0
Notes payable	1,413.8	2,208.8
Deferred income taxes		28.4
Other current liabilities	1,379.9	1,239.8
Total current liabilities	4,028.1	4,856.3
Long-term debt	5,755.4	4,348.7
Deferred income taxes	1,420.4	1,454.6
Other liabilities	2,095.4	1,923.9
Total liabilities	13,299.3	12,583.5
Minority interests	242.3	242.3
Stockholders' equity:		

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Common stock, 377.3 shares issued, \$0.10 par value	37.7	37.7
Additional paid-in capital	1,230.1	1,149.1
Retained earnings	7,018.5	6,510.7
Common stock in treasury, at cost, shares of 48.6 and 39.8	(2,436.3)	(1,658.4)
Accumulated other comprehensive income (loss)	(312.9)	176.7
Total stockholders' equity	5,537.1	6,215.8
Total liabilities and equity	\$ 19,078.7	\$ 19,041.6

See accompanying notes to consolidated financial statements.

4

Table of Contents

GENERAL MILLS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
 (Unaudited) (In Millions, Except per Share Data)

	\$0.10 Par Value Common Stock		(One Billion Shares Authorized)				Accumulated		
	Issued	Additional		Treasury			Retained	Other	
	Par	Paid-In		Shares	Amount	Earnings	Income	(Loss)	Total
	Shares	Amount	Capital	Shares	Amount	Earnings	(Loss)		Total
Balance as of May 27, 2007	502.3	\$ 50.2	\$ 5,841.3	(161.7)	(\$6,198.0)	\$ 5,745.3	(\$119.7)		\$ 5,319.1
Comprehensive income:									
Net earnings						1,294.7			1,294.7
Other comprehensive income, net of tax:									
Net change on hedge derivatives and securities							(1.8)		(1.8)
Foreign currency translation							246.3		246.3
Amortization of losses and prior service costs							12.5		12.5
Minimum pension liability adjustment							39.4		39.4
Other comprehensive income							296.4		296.4
Total comprehensive income									1,591.1
Cash dividends declared (\$1.57 per share)						(529.7)			(529.7)
Stock compensation plans (includes income tax benefits of \$55.7)			121.0	6.5	261.6				382.6
Shares purchased				(23.9)	(1,384.6)				(1,384.6)
Retirement of treasury shares	(125.0)	(12.5)	(5,068.3)	125.0	5,080.8				
Shares issued under forward purchase contract			168.2	14.3	581.8				750.0
Unearned compensation related to restricted stock awards			(104.1)						(104.1)
Adoption of FIN 48			57.8			8.4			66.2
Capital appreciation paid to holders of						(8.0)			(8.0)

Series B-1 limited
membership interests in
General Mills Cereals,
LLC (GMC)

Earned compensation			133.2					133.2
Balance as of May 25, 2008	377.3	37.7	1,149.1	(39.8)	(1,658.4)	6,510.7	176.7	6,215.8
Comprehensive income:								
Net earnings						945.6		945.6
Other comprehensive loss, net of tax:								
Net change on hedge derivatives and securities							31.5	31.5
Foreign currency translation							(531.2)	(531.2)
Amortization of losses and prior service costs							10.1	10.1
Other comprehensive loss							(489.6)	(489.6)
Total comprehensive income								456.0
Cash dividends declared (\$1.29 per share)						(437.8)		(437.8)
Stock compensation plans (includes income tax benefits of \$91.0)			40.6	9.2	416.0			456.6
Shares purchased				(18.9)	(1,232.5)			(1,232.5)
Shares issued for acquisition			16.4	0.9	38.6			55.0
Unearned compensation related to restricted stock awards			(74.5)					(74.5)
Earned compensation			98.5					98.5
Balance as of Feb. 22, 2009	377.3	\$ 37.7	\$ 1,230.1	(48.6)	(\$2,436.3)	\$ 7,018.5	(\$312.9)	\$ 5,537.1

See accompanying notes to consolidated financial statements.

Table of Contents

GENERAL MILLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In Millions)

	Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008
Cash Flows - Operating Activities		
Net earnings	\$ 945.6	\$ 1,109.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	333.6	348.7
After-tax earnings from joint ventures	(79.7)	(79.7)
Stock-based compensation	98.5	109.6
Deferred income taxes	(19.6)	(28.0)
Tax benefit on exercised options	(91.0)	(28.3)
Distributions of earnings from joint ventures	29.9	50.1
Pension, other postretirement, and postemployment benefit costs	(45.2)	(20.7)
Divestiture (gain)	(128.8)	
Gain on insurance settlement	(41.3)	
Restructuring, impairment, and other exit costs	(1.6)	7.8
Changes in current assets and liabilities	139.8	(536.8)
Other, net	(10.3)	(18.3)
 Net cash provided by operating activities	 1,129.9	 913.9
 Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	(351.1)	(299.2)
Acquisitions		1.4
Investments in affiliates, net	(6.8)	5.3
Proceeds from disposal of land, buildings, and equipment	2.0	11.7
Proceeds from divestiture of product line	192.5	
Proceeds from insurance settlement	41.3	
Other, net	(34.2)	(13.2)
 Net cash used by investing activities	 (156.3)	 (294.0)
 Cash Flows - Financing Activities		
Change in notes payable	(775.7)	1,171.4
Issuance of long-term debt	1,850.0	700.0
Payment of long-term debt	(358.1)	(480.0)
Settlement of Lehman Brothers forward purchase contract		750.0
Repurchase of Series B-1 limited membership interests in GMC		(843.0)
Repurchase of General Mills Capital, Inc. preferred stock		(150.0)
Proceeds from sale of Class A limited membership interests in GMC		92.3
Proceeds from common stock issued on exercised options	286.6	111.5

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Tax benefit on exercised options	91.0	28.3
Purchases of common stock for treasury	(1,232.4)	(1,428.6)
Dividends paid	(437.8)	(395.0)
Other, net	(9.5)	(3.8)
Net cash used by financing activities	(585.9)	(446.9)
Effect of exchange rate changes on cash and cash equivalents	(111.4)	30.3
Increase in cash and cash equivalents	276.3	203.3
Cash and cash equivalents - beginning of year	661.0	417.1
Cash and cash equivalents - end of period	\$ 937.3	\$ 620.4
Cash Flow from Changes in Current Assets and Liabilities		
Receivables	\$ (130.4)	\$ (165.3)
Inventories	(61.5)	(442.9)
Prepaid expenses and other current assets	72.1	(48.7)
Accounts payable	(137.6)	6.7
Other current liabilities	397.2	113.4
Changes in current assets and liabilities	\$ 139.8	\$ (536.8)

See accompanying notes to consolidated financial statements.

Table of Contents

GENERAL MILLS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the quarterly and nine-month periods ended February 22, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2009. Fiscal 2009 consists of 53 weeks compared to 52 weeks in fiscal 2008. The additional week will be included in the fourth quarter of the year. These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2008. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K, except as discussed in Notes 6 and 18 to these Consolidated Financial Statements.

(2) Acquisitions and Divestitures

Subsequent to the end of the third quarter, we entered into an agreement to sell a portion of the assets of the frozen unbaked bread dough product line for our Bakeries and Foodservice segment. Certain assets being sold are shared with a frozen dinner roll product line for our U.S. Retail segment. Coincident with the sale, we will exit this product line. We expect the transaction to close during the fourth quarter of fiscal 2009. We expect to record a loss on this transaction of approximately \$32 million after-tax in the fourth quarter of fiscal 2009. We will present this transaction as a divestiture in our Consolidated Statements of Earnings.

During the second quarter of fiscal 2009, we sold our *Pop Secret* microwave popcorn product line for \$192.5 million in cash. The transaction was completed on September 15, 2008, and we recorded a pre-tax gain of \$128.8 million. We received cash proceeds of \$158.9 million after repayment of a lease obligation and transaction costs.

During the first quarter of fiscal 2009, we acquired Humm Foods, Inc. (Humm Foods), the maker of *Lärabar* fruit and nut energy bars. We issued 0.9 million shares of our common stock with a value of \$55.0 million to the shareholders of Humm Foods as consideration for the acquisition. We recorded the purchase price less tangible and intangible net assets acquired as goodwill of \$42.8 million. The pro forma effect of this acquisition was not material.

During the third quarter of fiscal 2008, the 8th Continent soymilk business was sold. Our 50 percent share of the after-tax gain on this sale was \$2.2 million. In the third quarter of fiscal 2008, we recognized \$1.7 million of this gain in after-tax earnings from joint ventures. We will record an additional after-tax gain of up to \$0.5 million in the first quarter of fiscal 2010 if certain conditions are satisfied.

During the first quarter of fiscal 2008, we acquired a controlling interest in HD Distributors (Thailand) Company Limited. Prior to acquiring the controlling interest, we accounted for our investment as a joint venture. The purchase price, net of cash acquired, resulted in a \$1.3 million cash inflow classified in acquisitions on the Consolidated Statements of Cash Flows. The pro forma effect of this acquisition was not material.

Table of Contents**(3) Restructuring, Impairment, and Other Exit Costs**

Restructuring, impairment, and other exit costs were as follows:

In Millions	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Closure of Trenton, Ontario frozen dough plant	\$ 0.9	\$ 1.3	\$ 4.4	\$ 9.8
Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant			1.3	3.0
Closure of Poplar, Wisconsin plant	0.4		0.7	2.7
Closure of Allentown, Pennsylvania frozen waffle plant		0.7		10.8
Gain on sale of previously closed Vallejo, California plant				(7.1)
Charges associated with restructuring actions previously announced	(0.1)	3.0		3.1
Total	\$ 1.2	\$ 5.0	\$ 6.4	\$ 22.3

During the nine-month period ended February 22, 2009, we did not undertake any new restructuring actions. We incurred incremental plant closure expenses related to previously announced restructuring activities of \$1.2 million in the third quarter of fiscal 2009 and \$6.4 million in the nine-month period ended February 22, 2009.

During the nine-month period ended February 24, 2008, we approved a plan to transfer *Old El Paso* production from our Poplar, Wisconsin facility to other plants and close the Poplar facility. This action to improve capacity utilization and reduce costs affected 113 employees at the Poplar facility, and resulted in a charge of \$2.7 million consisting entirely of employee severance. This project was completed in the third quarter of fiscal 2009. Due to declining financial results, we decided to exit our frozen waffle product line (retail and foodservice) and to close our frozen waffle plant in Allentown, Pennsylvania, affecting 111 employees. We recorded a charge of \$10.8 million related to this closure, consisting of \$3.9 million of employee severance, a \$6.2 million non-cash impairment charge against long-lived assets at the plant, and \$0.7 million of incremental plant closure expenses. We also completed an analysis of the viability of our Bakeries and Foodservice frozen dough facility in Trenton, Ontario, and closed the facility, affecting 470 employees. We recorded a \$9.8 million charge for employee severance expenses and curtailment charges associated with a defined benefit pension plan. We expect to make limited use of the plant during fiscal 2009 while we evaluate sublease or lease termination options. These actions, including the anticipated timing of the disposition of the plants we closed, are expected to be completed by May 31, 2009. We also restructured our production scheduling and discontinued our cake product line at our Chanhassen, Minnesota Bakeries and Foodservice plant. These actions affected 125 employees, and we recorded a charge for employee severance of \$3.0 million. This action was completed in fiscal 2009. Finally, we recorded additional charges of \$3.1 million primarily related to previously announced Bakeries and Foodservice segment restructuring actions. This amount consisted entirely of employee severance for 38 employees. This action was completed in fiscal 2008.

During the nine-month period ended February 24, 2008, we sold our previously closed Vallejo, California plant and received \$10.6 million in proceeds.

The charges we expect to incur with respect to previously announced restructuring actions are \$17 million in fiscal 2009 and \$1 million in fiscal 2010.

Table of Contents**(4) Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill during fiscal 2009 were as follows:

In Millions	U.S. Retail	International	Bakeries and Foodservice	Joint Ventures	Total
Balance as of May 25, 2008	\$ 5,107.0	\$ 146.4	\$ 955.7	\$ 577.0	\$ 6,786.1
Acquisition of Humm Foods	42.8				42.8
Divestiture of <i>Pop Secret</i> product line	(17.8)	(0.1)	(0.7)		(18.6)
Deferred tax adjustment related to <i>Pop Secret</i> divestiture	(44.2)	(4.2)	(12.2)		(60.6)
Other activity, primarily foreign currency translation		(34.9)		(107.3)	(142.2)
Balance as of Feb. 22, 2009	\$ 5,087.8	\$ 107.2	\$ 942.8	\$ 469.7	\$ 6,607.5

Future adjustments to goodwill may occur upon the final resolution of certain income tax accounting matters.

The changes in the carrying amount of other intangible assets, primarily brand intangibles, during fiscal 2009 were as follows:

In Millions	U.S. Retail	International	Joint Ventures	Total
Balance as of May 25, 2008	\$ 3,175.2	\$ 518.8	\$ 83.2	\$ 3,777.2
Acquisition of Humm Foods	19.4			19.4
Other activity, primarily foreign currency translation		(102.8)	(13.4)	(116.2)
Balance as of Feb. 22, 2009	\$ 3,194.6	\$ 416.0	\$ 69.8	\$ 3,680.4

(5) Inventories

The components of inventories were as follows:

In Millions	Feb. 22, 2009	May 25, 2008
Raw materials and packaging	\$ 284.3	\$ 265.0
Finished goods	1,125.6	1,012.4
Grain	116.2	215.2
Excess of FIFO or weighted-average cost over LIFO cost	(165.5)	(125.8)
Total	\$ 1,360.6	\$ 1,366.8

(6) Fair Values, Derivatives, and Grain Inventories

As a part of our ongoing operations, we are exposed to market risks such as changes in interest rates, foreign currency exchange rates, and commodity prices. To manage these risks, we may enter into various derivative transactions (e.g., futures, options, and swaps) pursuant to our established policies.

Commodity Price Risk. Many commodities we use in the production and distribution of our products are exposed to market price risks. We use derivatives to hedge price risk for our principal raw materials and energy input costs including grains (wheat, oats, and corn), oils (principally soybean), non-fat dry milk, natural gas, and diesel fuel. We also operate a grain merchandising operation, primarily for wheat and oats. This operation uses futures and options to hedge its net inventory position to minimize market exposure. We manage our exposures through a combination of purchase orders, long-term contracts with suppliers, exchange-traded futures and options, and over-the-counter options and swaps. We offset our exposures based on current and projected market conditions, and generally seek to acquire the inputs at as close to our planned cost as possible.

Table of Contents

Due to the rising compliance costs and the complexity associated with the application of hedge accounting, we elected to discontinue the use of hedge accounting for all commodity derivative positions entered into after the beginning of fiscal 2008. Accordingly, the changes in the values of these derivatives are recorded in cost of sales in our Consolidated Statements of Earnings currently.

Regardless of designation for accounting purposes, we believe all of our commodity hedges are economic hedges of our risk exposures, and as a result we consider these derivatives to be hedges for purposes of measuring segment operating performance. Thus, these gains and losses are reported in unallocated corporate items outside of segment operating results until such time that the exposure we are hedging affects earnings. At that time we reclassify the hedge gain or loss from unallocated corporate items to segment operating profit, allowing our operating segments to realize the economic effects of the hedge without experiencing any resulting mark-to-market volatility, which remains in unallocated corporate items. We no longer have any open commodity derivatives previously accounted for as cash flow hedges.

Pursuant to this policy, unallocated corporate items for the quarterly and nine-month periods ended February 22, 2009, and February 24, 2008, included:

	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Change in Unallocated Corporate Income (Expense), in Millions				
Net gain (loss) on mark-to-market valuation of commodity positions	\$ (28.4)	\$ 103.8	\$ (300.4)	\$ 145.9
Net loss (gain) on commodity positions reclassified from unallocated corporate items to segment operating profit	81.9	(16.6)	47.2	(46.6)
Net mark-to-market revaluation of certain grain inventories	17.7	64.0	(36.2)	68.8
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	\$ 71.2	\$ 151.2	\$ (289.4)	\$ 168.1

As of February 22, 2009, the net notional value of commodity derivatives was \$150.0 million, of which \$104.0 million relates to agricultural inputs and \$46.0 million relates to energy inputs. These hedges are related to inputs that generally will be utilized within the next 12 months.

Interest Rate Risk. We are exposed to interest rate volatility with regard to future issuances of fixed-rate debt, and existing and future issuances of floating-rate debt. Primary exposures include U.S. Treasury rates, London Interbank Offered Rates (LIBOR), and commercial paper rates in the United States and Europe. We use U.S. Treasury rate lock contracts, interest rate swaps, and forward-starting interest rate swaps to hedge our exposure to interest rate changes, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed-rate versus floating-rate debt, based on current and projected market conditions. Generally, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed notional principal amount.

Floating Interest Rate Exposures Except as discussed below, floating-to-fixed interest rate swaps are accounted for as cash flow hedges, as are all hedges of forecasted issuances of debt. Effectiveness is assessed based on either the perfectly effective hypothetical derivative method or changes in the present value of interest payments on the underlying debt. Amounts deferred to accumulated other comprehensive income (loss) are reclassified into earnings over the life of the associated debt. As of February 22, 2009, the total notional value of our pay-floating swaps was \$1.9 billion.

Fixed Interest Rate Exposures Fixed-to-floating interest rate swaps are accounted for as fair value hedges with effectiveness assessed based on changes in the fair value of the underlying debt, using incremental borrowing rates currently available on loans with similar terms and maturities. Effective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. As of February 22, 2009, the total notional value of our

pay-fixed swaps was \$2.3 billion.

Table of Contents

The swap contracts mature at various dates from 2009 to 2015 as follows:

In Millions	Fiscal Year Maturity Date	
	Pay Floating	Pay Fixed
2009	\$ 9.9	\$
2010	18.9	500.0
2011	17.6	
2012	1,753.4	1,000.0
2013	14.6	750.0
Beyond 2013	37.6	
Total	\$ 1,852.0	\$ 2,250.0

In anticipation of our acquisition of The Pillsbury Company (Pillsbury) and other financing needs, we entered into pay-fixed interest rate swap contracts during fiscal 2001 and 2002 totaling \$7.1 billion to lock in our interest payments on the associated debt. As of February 22, 2009, we still owned \$1.8 billion of Pillsbury-related pay-fixed swaps that were previously neutralized with offsetting pay-floating swaps in fiscal 2002.

In advance of a planned debt financing in fiscal 2007, we entered into \$700.0 million pay-fixed, forward-starting interest rate swaps with an average fixed rate of 5.7 percent. All of these forward-starting interest rate swaps were cash settled for \$22.5 million coincident with our \$1.0 billion 10-year fixed-rate note offering on January 24, 2007. As of February 22, 2009, \$17.7 million pre-tax loss remained in accumulated other comprehensive income (loss), which will be reclassified to earnings over the term of the underlying debt.

The net amount of pre-tax gains and losses in accumulated other comprehensive income (loss) as of February 22, 2009, that is expected to be reclassified into net earnings within the next 12 months is \$20.2 million of income.

Foreign Exchange Risk. Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency cash flows primarily related to third-party purchases, intercompany loans, and product shipments. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. Our principal exposures are to the Australian dollar, British pound sterling, Canadian dollar, Chinese renminbi, euro, Japanese yen and Mexican peso. We primarily use foreign currency forward contracts to selectively hedge our foreign currency cash flow exposures. We generally do not hedge more than 18 months forward. As of February 22, 2009, the total notional amount of our foreign currency forward contracts was \$550.8 million.

Fair Value Measurements and Financial Statement Presentation. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. SFAS 157 applies to instruments accounted for under previously issued pronouncements that prescribe fair value as the relevant measure of value.

We adopted SFAS 157 at the beginning of fiscal 2009 for all instruments valued on a recurring basis, and our adoption did not have a material impact on our financial statements. The FASB also deferred the effective date of SFAS 157 until the beginning of fiscal 2010 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. This includes fair value calculated in impairment assessments of goodwill, indefinite-lived intangible assets, and other long-lived assets.

The fair value framework requires the categorization of assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

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Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Table of Contents

The fair values of our financial assets, liabilities, and derivative positions in the scope of SFAS 157 as of February 22, 2009, were as follows:

In Millions	Fair Values of Assets				Fair Values of Liabilities			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives designated as hedging instruments:								
Interest rate contracts (a) (d)	\$	\$	\$	\$	\$	\$ (4.7)	\$	\$ (4.7)
Foreign exchange contracts (b) (c)		34.4		34.4		(4.3)		(4.3)
Total		34.4		34.4		(9.0)		(9.0)
Derivatives not designated as hedging instruments:								
Interest rate contracts (a) (d)		197.2		197.2		(268.8)		(268.8)
Foreign exchange contracts (b) (c)						(4.5)		(4.5)
Equity contracts (a) (e)						(1.6)		(1.6)
Commodity contracts (b) (g)					(6.3)	(67.3)		(73.6)
Total		197.2		197.2	(6.3)	(342.2)		(348.5)
Other assets and liabilities reported at fair value:								
Marketable investments (f)	11.7	40.6		52.3				
Grain contracts (g)		11.1		11.1		(17.5)		(17.5)
Total	11.7	51.7		63.4		(17.5)		(17.5)
Total financial assets, liabilities, and derivative positions	\$ 11.7	\$ 283.3	\$	\$ 295.0	\$ (6.3)	\$ (368.7)	\$	\$ (375.0)

(a) These contracts are recorded as other assets or as other liabilities, as appropriate, based on whether in a gain or loss position.

(b) These contracts are recorded as

prepaid expenses and other current assets or as other current liabilities, as appropriate, based on whether in a gain or loss position.

- (c) Based on observable market transactions of spot currency rates and forward currency prices.
- (d) Based on LIBOR and swap rates.
- (e) Based on LIBOR, swap, and equity index swap rates.
- (f) Based on prices of common stock and bond matrix pricing.
- (g) Based on prices of futures exchanges and recently reported transactions in the marketplace.

We did not significantly change our valuation techniques from prior periods.

Information related to our cash flow, net investment, and other derivatives not designated as hedging instruments for the quarterly and nine-month periods ended February 22, 2009, follows:

In Millions	Quarter Ended February 22, 2009				Total
	Interest Rate Contracts	Foreign Exchange Contracts	Equity Contracts	Commodity Contracts	

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Derivatives in Cash Flow Hedging Relationships:

Amount of gain (loss) recognized in OCI (a)	\$ 1.1	\$ (1.5)	\$	\$	\$ (0.4)
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)	\$ 4.0	\$ (6.8)	\$	\$	\$ (2.8)
Amount of gain (loss) recognized in earnings (c) (d)	\$	\$ (0.2)	\$	\$	\$ (0.2)

Derivatives in Net Investment Hedging Relationships:

Amount of gain (loss) recognized in OCI (a)	\$	\$	\$	\$	\$
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Derivatives Not Designated as Hedging Instruments:

Amount of gain (loss) recognized in earnings (e)	\$ (0.4)	\$ 0.3	\$	\$ (28.4)	\$ (28.5)
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Table of Contents

In Millions	Nine-Month Period Ended February 22, 2009				Total
	Interest Rate Contracts	Foreign Exchange Contracts	Equity Contracts	Commodity Contracts	
Derivatives in Cash Flow Hedging Relationships:					
Amount of gain (loss) recognized in OCI (a)	\$ (0.7)	\$ 48.2	\$	\$	\$ 47.5
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)	\$ 11.7	\$ (12.3)	\$	\$	\$ (0.6)
Amount of gain (loss) recognized in earnings (c) (d)	\$ (0.1)	\$ (0.2)	\$	\$	\$ (0.3)
Derivatives in Net Investment Hedging Relationships:					
Amount of gain (loss) recognized in OCI (a)	\$	\$ 6.0	\$	\$	\$ 6.0
Derivatives Not Designated as Hedging Instruments:					
Amount of gain (loss) recognized in earnings (e)	\$ 2.6	\$ (74.5)	\$ 0.1	\$ (300.4)	\$ (372.2)

(a) Effective portion.

(b) Gain (loss) reclassified from AOCI into earnings is reported in interest, net for interest rate swaps and in cost of sales and SG&A for foreign exchange contracts.

(c) All gain (loss) recognized in earnings is related to the ineffective portion of the hedging relationship. No amounts were reported as a result of being excluded from the assessment of

hedge effectiveness.

(d) Gain (loss) recognized in earnings is reported in interest, net for interest rate swaps and in SG&A for foreign exchange contracts.

(e) Gain (loss) recognized in earnings is reported in interest, net for interest rate and foreign exchange contracts; in cost of sales for commodity contracts; and in SG&A for equity contracts.

Credit-Risk-Related Contingent Features. Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, the counterparties to the derivative instruments could request full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on February 22, 2009, was \$37.5 million. We have posted collateral of \$26.7 million in the normal course of business associated with these contracts. If the credit-risk-related contingent features underlying these agreements were triggered on February 22, 2009, we would be required to post an additional \$10.8 million of collateral to the counterparties.

Counterparty Credit Risk. We enter into interest rate, foreign exchange, and certain commodity and equity derivatives, primarily with a diversified group of highly rated counterparties. The maximum amount of loss due to the credit risk of the counterparties, should the counterparties fail to perform according to the terms of the contracts, is \$46 million against which we hold \$3 million of collateral. Under the terms of master swap agreements, some of our transactions require collateral or other security to support financial instruments subject to threshold levels of exposure and counterparty credit risk. Collateral assets are either cash or U. S. Treasury instruments and are held in a trust account which we have access to in the event the counterparty defaults.

(7) Debt

The components of notes payable were as follows:

In Millions	Feb. 22, 2009	May 25, 2008
U.S. commercial paper	\$ 646.3	\$ 687.5
Euro commercial paper	645.6	1,386.3
Financial institutions	121.9	135.0

Total	\$ 1,413.8	\$ 2,208.8
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Our commercial paper borrowings are supported by fee-paid committed credit lines consisting of a \$1.8 billion facility expiring in October 2012 and a \$1.1 billion facility expiring in October 2010. The credit facilities contain several covenants with which we are in compliance, including a requirement to maintain a fixed charge coverage ratio of at least 2.5. As of February 22, 2009, we did not have any outstanding borrowings under these credit facilities.

Table of Contents

In January 2009, we sold \$1.2 billion aggregate principal amount of our 5.65 percent notes due 2019. In August 2008, we sold \$700.0 million aggregate principal amount of our 5.25 percent notes due 2013. The proceeds of these notes were used to repay a portion of our outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. These notes may be redeemed at our option at any time for a specified make-whole amount. These notes are senior unsecured, unsubordinated obligations and contain a change of control provision, as defined in the instruments governing the notes.

Certain of our long-term debt agreements contain restrictive covenants. As of February 22, 2009, we were in compliance with all of these covenants.

(8) Minority Interests

There were no capital transactions that impacted our minority interests in fiscal 2009.

On August 7, 2007, we repurchased for a net amount of \$843.0 million all of the outstanding Series B-1 limited membership interests (Series B-1 Interests) previously issued by our subsidiary General Mills Cereals, LLC (GMC) as part of a required remarketing of those interests. The purchase price reflected the Series B-1 Interests' original capital account balance of \$835.0 million and \$8.0 million of capital account appreciation attributable and paid to the third party holder of the Series B-1 Interests. The capital appreciation paid to the third party holder of the Series B-1 Interests was recorded as a reduction to retained earnings, a component of stockholders' equity, on the Consolidated Balance Sheets, and reduced net earnings available to common stockholders in our basic and diluted earnings per share (EPS) calculations. We used commercial paper to fund the repurchase.

We and the third party holder of all of GMC's outstanding Class A limited membership interests (Class A Interests) agreed to reset, effective on June 28, 2007, the preferred rate of return applicable to the Class A Interests to the sum of 3 month LIBOR plus 65 basis points. On June 28, 2007, we also sold \$92.3 million of additional Class A Interests to the same third party. There was no gain or loss associated with these transactions. As of February 22, 2009, the carrying value of all outstanding Class A Interests on our Consolidated Balance Sheets was \$242.3 million, and the capital account balance of the Class A Interests, upon which preferred distributions are calculated, was \$248.1 million. On June 28, 2007, we repurchased for \$150.0 million all of the outstanding Series A preferred stock of our subsidiary General Mills Capital, Inc. using proceeds from the sale of the Class A Interests and commercial paper. There was no gain or loss associated with this repurchase.

Our minority interests contain restrictive covenants. As of February 22, 2009, we were in compliance with all of these covenants.

Table of Contents**(9) Stockholders Equity**

The following table provides details of total comprehensive income (loss):

In Millions	Quarter Ended Feb. 22, 2009			Quarter Ended Feb. 24, 2008		
	Pretax	Tax	Net	Pretax	Tax	Net
Net earnings			\$ 288.9			\$ 430.1
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ 23.0	\$	\$ 23.0	\$ 4.3	\$	\$ 4.3
Other fair value changes:						
Securities	2.8	(1.1)	1.7	3.2	(1.1)	2.1
Hedge derivatives	(0.4)	(0.8)	(1.2)	11.7	(3.8)	7.9
Reclassification to earnings:						
Hedge derivatives	(2.8)	1.4	(1.4)	(21.5)	8.0	(13.5)
Amortization of losses and prior service costs	6.1	(2.3)	3.8	12.1	(4.2)	7.9
Other comprehensive income	\$ 28.7	\$ (2.8)	\$ 25.9	\$ 9.8	\$ (1.1)	\$ 8.7
Total comprehensive income			\$ 314.8			\$ 438.8

In Millions	Nine-Month Period Ended Feb. 22, 2009			Nine-Month Period Ended Feb. 24, 2008		
	Pretax	Tax	Net	Pretax	Tax	Net
Net earnings			\$ 945.6			\$ 1,109.5
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ (531.2)	\$	\$ (531.2)	\$ 154.6	\$	\$ 154.6
Other fair value changes:						
Securities	(2.6)	1.0	(1.6)	2.2	(0.8)	1.4
Hedge derivatives	47.5	(14.5)	33.0	50.2	(17.7)	32.5
Reclassification to earnings:						
Hedge derivatives	(0.6)	0.7	0.1	(49.8)	18.1	(31.7)
Amortization of losses and prior service costs	16.3	(6.2)	10.1	35.2	(12.6)	22.6
Other comprehensive income (loss)	\$ (470.6)	\$ (19.0)	\$ (489.6)	\$ 192.4	\$ (13.0)	\$ 179.4
Total comprehensive income			\$ 456.0			\$ 1,288.9

Except for reclassifications to earnings, changes in other comprehensive income (loss) are primarily non-cash items. Accumulated other comprehensive income (loss) balances, net of tax effects, were as follows:

In Millions	Feb. 22, 2009	May 25, 2008
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Foreign currency translation adjustments	\$ 117.2	\$ 648.4
Unrealized gain (loss) from:		
Securities	3.2	4.8
Hedge derivatives	(6.1)	(39.2)
Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	(393.0)	(400.4)
Prior service costs	(34.2)	(36.9)
Accumulated other comprehensive income (loss)	\$ (312.9)	\$ 176.7

Table of Contents

On December 10, 2007, our Board of Directors approved the retirement of 125.0 million shares of common stock in treasury effective December 10, 2007. This action reduced common stock by \$12.5 million, reduced additional paid-in-capital by \$5,068.3 million, and reduced common stock in treasury by \$5,080.8 million on our Consolidated Balance Sheet.

(10) Stock Plans

We have various stock-based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees and non-employee directors. These programs and related accounting are described on pages 63 to 65 of our Annual Report on Form 10-K for the fiscal year ended May 25, 2008.

Compensation expense related to stock-based payments recognized in selling, general, and administrative expenses in the Consolidated Statements of Earnings was as follows:

In Millions	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Compensation expense related to stock-based payments	\$ 27.6	\$ 23.0	\$ 114.3	\$ 109.6

As of February 22, 2009, unrecognized compensation expense related to non-vested stock options and restricted stock units was \$217.6 million. This expense will be recognized over 26 months, on average.

Net cash proceeds from the exercise of stock options less shares used for withholding taxes and the intrinsic value of options exercised were as follows:

In Millions	Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008
Net cash proceeds	\$ 287.3	\$ 112.2
Intrinsic value of options exercised	\$ 221.1	\$ 64.1

We estimate the fair value of each option on the grant date using the Black-Scholes option-pricing model, which requires us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in estimating our stock price volatility. For fiscal 2008 and all future grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by the acquisition of Pillsbury does not reflect what we believe to be expected future volatility. We also have considered, but did not use, implied volatility in our estimate, because trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained on pages 63 and 64 in our Annual Report on Form 10-K for the fiscal year ended May 25, 2008.

The estimated fair values of stock options granted and the assumptions used for the Black-Scholes option-pricing model were as follows:

**Nine-Month
Period Ended**

	Feb. 22, 2009	Feb. 24, 2008
Estimated fair values of stock options granted	\$ 9.42	\$ 10.56
Assumptions:		
Risk-free interest rate	4.4%	5.1%
Expected term	8.5 years	8.5 years
Expected volatility	16.1%	15.6%
Dividend yield	2.7%	2.7%

Table of Contents

Information on stock option activity follows:

	Shares (thousands)	Weighted- average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value (millions)
Balance as of May 25, 2008	53,021.2	\$ 45.35		
Granted	3,239.1	63.52		
Exercised	(8,276.3)	39.19		
Forfeited or expired	(85.8)	54.02		
Outstanding as of Feb. 22, 2009	47,898.2	\$ 47.63	4.66	\$ 402.7
Exercisable as of Feb. 22, 2009	34,311.6	\$ 43.88	3.22	\$ 383.5

Information on restricted stock unit activity follows:

	Units (thousands)	Weighted- average grant- date fair value
Non-vested as of May 25, 2008	5,150.7	\$ 52.81
Granted	2,150.3	63.53
Vested	(1,567.0)	49.09
Forfeited	(205.6)	57.94
Non-vested as of Feb. 22, 2009	5,528.4	\$ 57.84

The total grant-date fair value of restricted stock unit awards that vested in the nine-month period ended February 22, 2009, was \$76.9 million, and restricted stock units with a grant-date fair value of \$61.1 million vested in the nine-month period ended February 24, 2008.

(11) Earnings Per Share

Basic and diluted EPS were calculated using the following:

In Millions, Except per Share Data	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Net earnings - as reported	\$288.9	\$ 430.1	\$945.6	\$1,109.5
Capital appreciation paid on Series B-1 Interests in GMC (a)				(8.0)

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Net earnings for basic and diluted EPS calculations	\$288.9	\$ 430.1	\$945.6	\$1,101.5
Average number of common shares - basic EPS	329.2	337.0	332.9	331.7
Incremental share effect from:				
Stock options (b)	8.5	10.1	10.2	10.6
Restricted stock, restricted stock units, and other (b)	2.5	2.6	2.8	2.7
Forward purchase contract (c)				0.7
Average number of common shares - diluted EPS	340.2	349.7	345.9	345.7
Earnings per share - basic	\$ 0.88	\$ 1.28	\$ 2.84	\$ 3.32
Earnings per share - diluted	\$ 0.85	\$ 1.23	\$ 2.73	\$ 3.19

(a) See Note 8.

(b) Incremental shares from stock options, restricted stock, and restricted stock units are computed by the treasury stock method. Stock options and restricted stock units excluded from our computation of diluted EPS because they were not dilutive were as follows:

Table of Contents

In Millions	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Anti-dilutive stock options and restricted stock units	6.6	5.7	4.9	5.1

(c) On October 15, 2007, we settled a forward purchase contract with Lehman Brothers by issuing 14.3 million shares of common stock.

(12) Share Repurchases

During the third quarter of fiscal 2009, we repurchased 0.1 million shares of common stock for an aggregate purchase price of \$5.4 million. In the nine-month period ended February 22, 2009, we repurchased 18.9 million shares of common stock for an aggregate purchase price of \$1,232.5 million.

During the third quarter of fiscal 2008, we repurchased 2.8 million shares of common stock for \$154.1 million. In the nine-month period ended February 24, 2008, we repurchased 23.8 million shares of common stock for an aggregate purchase price of \$1,380.6 million.

(13) Interest, Net

The components of interest, including distributions to minority interest holders, were as follows:

Expense (Income), in Millions	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Interest expense	\$104.6	\$107.4	\$302.6	\$334.8
Distributions paid on preferred stock and interests of subsidiaries	1.8	3.5	6.0	19.7
Capitalized interest	(0.6)	(1.2)	(3.5)	(3.6)
Interest income	(5.4)	(7.1)	(17.5)	(19.1)
Interest, net	\$100.4	\$102.6	\$287.6	\$331.8

(14) Statements of Cash Flows

During the nine-month period ended February 22, 2009, we made cash interest payments of \$223.7 million, compared to \$279.2 million in the same period last year. The prior year cash interest payments has been conformed to the current year presentation. Also, in the nine-month period ended February 22, 2009, we made cash tax payments of \$273.8 million, compared to \$391.6 million in the same period last year. We acquired Humm Foods by issuing 0.9 million shares of our common stock to its shareholders, with a value of \$55.0 million, as consideration. This acquisition is treated as a non-cash transaction in our Consolidated Statements of Cash Flows.

Table of Contents**(15) Retirement and Postemployment Benefits**

Components of net pension, other postretirement, and postemployment (income) expense were as follows:

In Millions	Defined Benefit Pension Plans		Other Postretirement Benefit Plans		Postemployment Benefit Plans	
	Quarter Ended		Quarter Ended		Quarter Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Service cost	\$ 19.1	\$ 20.0	\$ 3.5	\$ 4.1	\$ 1.6	\$ 1.5
Interest cost	53.8	49.2	15.3	14.7	1.3	1.0
Expected return on plan assets	(96.4)	(90.2)	(7.5)	(7.6)		
Amortization of losses (gains)	2.0	5.7	1.9	3.8	0.3	(0.1)
Amortization of prior service costs (credits)	1.8	1.9	(0.3)	(0.3)	0.5	0.6
Other adjustments					2.1	(1.8)
Net (income) expense	\$ (19.7)	\$ (13.4)	\$ 12.9	\$ 14.7	\$ 5.8	\$ 1.2

In Millions	Defined Benefit Pension Plans		Other Postretirement Benefit Plans		Postemployment Benefit Plans	
	Nine-Month Period Ended		Nine-Month Period Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Service cost	\$ 57.8	\$ 60.0	\$ 10.6	\$ 12.3	\$ 4.9	\$ 3.9
Interest cost	161.7	147.4	45.9	44.1	3.7	2.8
Expected return on plan assets	(289.6)	(270.4)	(22.5)	(22.8)		
Amortization of losses (gains)	6.0	17.2	5.5	11.5	0.8	(0.2)
Amortization of prior service costs (credits)	5.5	5.7	(1.0)	(1.1)	1.6	1.6
Other adjustments					6.6	4.9
Net (income) expense	\$ (58.6)	(40.1)	38.5	44.0	17.6	13.0

(16) Income Taxes

In the third quarter of fiscal 2008, we recorded an income tax benefit of \$30.7 million as a result of a favorable U.S. District Court decision on an uncertain tax matter. On January 26, 2009, the U.S. Court of Appeals for the Eighth Circuit issued an opinion reversing the U.S. District Court decision. As a result, we recorded \$52.6 million (including interest) of income tax expense related to the reversal of cumulative income tax benefits from this uncertain tax matter recognized in fiscal years 1992 through 2008. We expect to make cash tax and interest payments of approximately \$31.7 million to settle this matter. We are currently evaluating our options for appeal.

(17) Business Segment Information

We operate in the consumer foods industry. We have three operating segments by type of customer and geographic region as follows: U.S. Retail; International; and Bakeries and Foodservice.

Our U.S. Retail segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar, and discount chains operating throughout the United States. Our major product categories in the United States are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including soup, granola bars, and cereal.

Our International segment is largely made up of retail businesses outside of the United States. In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen

Table of Contents

dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks. In markets outside the United States and Canada, our product categories include super-premium ice cream, granola and grain snacks, shelf stable and frozen vegetables, dough products, and dry dinners. Our International segment also includes products manufactured in the United States for export internationally, primarily in Caribbean and Latin American markets, as well as products we manufacture for sale to our joint ventures internationally. Revenues from export activities are reported in the region or country where the end customer is located.

In our Bakeries and Foodservice segment, we sell branded cereals, snacks, dinner and side dish products, refrigerated and soft-serve frozen yogurt, frozen dough products, branded baking mixes, and custom food items. Our customers include foodservice distributors and operators, convenience stores, vending machine operators, quick service chains and other restaurants, and business and school cafeterias in the United States and Canada. In addition, mixes and unbaked and fully baked frozen dough products are marketed throughout the United States and Canada to retail, supermarket, and wholesale bakeries.

Operating profit for these segments excludes unallocated corporate items (variances to planned corporate overhead expenses, variances to planned domestic employee benefits and incentives, variances to planned foreign exchange transaction gains and losses in our International subsidiaries, stock compensation costs, annual contributions to the General Mills Foundation, and other items that are not part of our measurement of segment operating performance, including earnings volatility arising from the mark-to-market valuation related to certain commodity positions, including the revaluation of certain grain inventories, until passed back to our operating segments in accordance with our internal hedge documentation as discussed in Note 6), divestiture gains and losses, and restructuring, impairment, and other exit costs. These items affecting operating profit are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by executive management. Under our supply chain organization, our manufacturing, warehouse, and distribution activities are substantially integrated across our operations in order to maximize efficiency and productivity. As a result, fixed assets and depreciation and amortization expenses are neither maintained nor available by operating segment.

Our operating segment results were as follows:

In Millions	Quarter Ended		Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008	Feb. 22, 2009	Feb. 24, 2008
Net sales:				
U.S. Retail	\$ 2,495.8	\$ 2,300.8	\$ 7,571.2	\$ 6,853.5
International	580.0	612.8	1,946.4	1,877.9
Bakeries and Foodservice	461.6	492.0	1,528.0	1,449.6
Total	\$ 3,537.4	\$ 3,405.6	\$ 11,045.6	\$ 10,181.0
Operating profit:				
U.S. Retail	\$ 489.5	\$ 486.2	\$ 1,654.1	\$ 1,543.3
International	48.9	52.2	207.1	207.5
Bakeries and Foodservice	21.9	56.1	112.5	138.1
Total segment operating profit	560.3	594.5	1,973.7	1,888.9
Unallocated corporate (income) expense	(46.2)	(105.9)	404.6	(26.0)
Divestiture (gain)			(128.8)	
Restructuring, impairment, and other exit costs	1.2	5.0	6.4	22.3

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Operating profit	\$ 605.3	\$ 695.4	\$ 1,691.5	\$ 1,892.6
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We recorded a \$41.3 million gain in unallocated corporate items related to the settlement of an insurance claim covering the loss of our *La Salteña* pasta manufacturing facility in Argentina in the third quarter of fiscal 2009.

20

Table of Contents**(18) New Accounting Pronouncements**

In the first quarter of fiscal 2009, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS 159)*. This statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. The adoption of SFAS 159 did not have an impact on our results of operations or financial condition.

In the first quarter of fiscal 2009, we adopted Emerging Issues Task Force (EITF) No. 6-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11)*. EITF 06-11 requires that tax benefits from dividends paid on unvested restricted shares be charged directly to stockholders' equity instead of benefiting income tax expense. The adoption of EITF 06-11 has increased our estimated fiscal 2009 annual effective tax rate by approximately 30 basis points.

Also in the first quarter of fiscal 2009, we adopted EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3)*. EITF 07-3 requires that nonrefundable advance payments for future research and development activities for materials, equipment, facilities, and purchased intangible assets that have an alternative future use be recognized in accordance with SFAS No. 2, *Accounting for Research and Development Costs*. The adoption of EITF 07-3 did not have any impact on our results of operations or financial condition.

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

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2008, for important background regarding, among other things, our key business drivers. Significant trademarks and service marks used in our business are set forth in *italics* herein. Certain terms used throughout this report are defined in a glossary on page 31 of this report.

CONSOLIDATED RESULTS OF OPERATIONS**Third Quarter Results**

For the third quarter of fiscal 2009, net sales grew 4 percent to \$3,537 million and total segment operating profit of \$560 million was 6 percent lower than \$594 million in the third quarter of fiscal 2008. (See page 31 for a discussion of this measure not defined by generally accepted accounting principles (GAAP)). Net earnings were \$289 million in the quarter, down 33 percent from \$430 million last year, and we reported diluted earnings per share (EPS) of \$0.85, down 31 percent from \$1.23 per share earned in the same period last year. Diluted EPS includes a \$0.13 net benefit from the mark-to-market valuation of certain commodity positions in the third quarter of fiscal 2009 compared to a \$0.27 net benefit in fiscal 2008. The third quarter of fiscal 2009 also includes an \$0.08 gain from the settlement with the insurance carrier covering our *La Salteña* pasta manufacturing facility in Argentina. Finally, the third quarter of fiscal 2009 includes a \$0.15 charge from a court ruling on an uncertain tax matter, compared to a benefit of \$0.09 in the same period a year ago.

Net sales growth of 4 points for the third quarter of fiscal 2009 was the result of 8 points of growth from net price realization and mix, offset by 1 point of combined segment volume decline and 3 points of unfavorable foreign currency exchange.

Table of Contents**Components of net sales growth**

Third Quarter of Fiscal 2009 vs.	Bakeries and			Combined
Third Quarter of Fiscal 2008	U.S. Retail	International	Foodservice	Segments
Volume growth (a)	1 pts	1 pts	-12 pts	-1 pts
Net price realization and mix	7 pts	9 pts	6 pts	8 pts
Foreign currency exchange	NA	-15 pts	Flat	-3 pts
Net sales growth	8 pts	-5 pts	-6 pts	4 pts

(a) Measured in tons based on the stated weight of our product shipments.

Cost of sales increased \$209 million from the third quarter of fiscal 2008 to \$2,260 million. A decrease of \$37 million related to lower volume was offset by an increase in input costs and changes in mix of \$166 million. In the third quarter of fiscal 2009, we recorded a \$71 million net decrease in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 6 to our Consolidated Financial Statements included in this Form 10-Q, compared to a net decrease of \$151 million in the third quarter of fiscal 2008.

Selling, general, and administrative (SG&A) expenses were up \$17 million in the third quarter of fiscal 2009 versus the same period in fiscal 2008. SG&A expenses as a percent of net sales in fiscal 2009 decreased 20 basis points compared with fiscal 2008. The change in SG&A expenses was primarily driven by a 6 percent increase in consumer marketing expense and higher employee compensation costs offset by a settlement with the insurance carrier covering our *La Salteña* pasta manufacturing facility in Argentina, which was destroyed by fire in fiscal 2008. The final settlement included a cash payment of \$41 million received in the third quarter of fiscal 2009, which we recorded as a gain in unallocated corporate items. This payment will offset the future capital expenditures required to replace the manufacturing facility. We previously received \$30 million of advances on the settlement, which largely offset the book value of assets destroyed in the fire and direct costs incurred. In addition, we recorded a \$13 million charge to write down the value of a corporate asset.

Restructuring, impairment, and other exit costs were comprised of the following:

In Millions	Quarter Ended	
	Feb. 22, 2009	Feb. 24, 2008
Closure of Trenton, Ontario frozen dough plant	\$ 0.9	\$ 1.3
Closure of Poplar, Wisconsin plant	0.4	
Closure of Allentown, Pennsylvania frozen waffle plant		0.7
Charges associated with restructuring actions previously announced	(0.1)	3.0
Total	\$ 1.2	\$ 5.0

We did not undertake any new restructuring actions during the third quarter of fiscal 2009. We incurred \$1 million of incremental plant closure expenses related to previously announced restructuring activities in the third quarter of fiscal 2009. We expect to make limited use of our Trenton, Ontario facility during fiscal 2009, while we evaluate sublease or lease termination options.

During the third quarter of fiscal 2008, we recorded a charge of \$5 million related to previously announced restructuring actions.

Net interest expense for the third quarter of fiscal 2009 totaled \$100 million, a \$2 million decrease from the same period of fiscal 2008. Average interest bearing instruments decreased \$47 million, leading to a \$1 million decrease in net interest, and average interest rates decreased 9 basis points, generating a \$1 million decrease in net interest. Average debt balances decreased as a result of share repurchase timing.

The **effective tax rate** for the third quarter of fiscal 2009 was 45.9 percent compared to 32.5 percent for the third quarter of fiscal 2008. The increase in the effective tax rate is primarily due to the effect of two court rulings. In the

Table of Contents

third quarter of fiscal 2008, we recorded an income tax benefit of \$31 million as a result of a favorable U.S. District Court decision on an uncertain tax matter. On January 26, 2009, the U.S. Court of Appeals for the Eighth Circuit issued an opinion reversing the U.S. District Court decision. As a result, we recorded \$53 million (including interest) of income tax expense related to the reversal of cumulative income tax benefits from this uncertain tax matter recognized in fiscal years 1992 through 2008. We expect to make cash tax and interest payments of approximately \$32 million to settle this matter. We are currently evaluating our options for appeal. The rate was also impacted by favorable discrete international tax benefits and increased benefits from foreign tax credits. These benefits were partially offset by discrete state tax increases resulting from changes in California and Wisconsin law.

After-tax earnings from joint ventures totaled \$16 million compared to \$30 million in the same quarter last fiscal year. In the third quarter of fiscal 2008, Cereal Partners Worldwide (CPW) recorded a net gain on the sale of a manufacturing facility related to a previously announced restructuring action. Our after-tax share of that gain, net of associated costs, was \$14 million. Also during the third quarter of fiscal 2008, CPW recorded new restructuring and impairment charges. Our after-tax share of those charges was \$3 million of expense. In fiscal 2009, net sales for CPW decreased 10 percent, as one point of volume growth was more than offset by unfavorable foreign exchange. Net sales for our Häagen-Dazs joint venture in Japan increased 4 percent over the same quarter of last fiscal year with favorable foreign currency exchange and net price realization more than offsetting volume declines. During the third quarter of fiscal 2008, the 8th Continent soy milk business was sold. Our 50 percent share of the after-tax gain on the sale was \$2 million.

Average diluted shares outstanding decreased by 10 million for the third quarter of fiscal 2009 from the same period a year ago due to the repurchase of 19 million shares of our common stock since the end of the third quarter of fiscal 2008, the majority of which was purchased in the first and second quarters of fiscal 2009. These purchases were partially offset by the issuance of common stock upon stock option exercises, the issuance of annual stock awards, the vesting of restricted stock units, and shares issued to acquire Humm Foods.

Nine-month Results

For the nine-month period ended February 22, 2009, net sales grew 8 percent to \$11,046 million and total segment operating profit increased 4 percent to \$1,974 million (see page 31 for a discussion of this measure not defined by GAAP). Net earnings were \$946 million, down 15 percent from \$1,110 million last year, and we reported diluted EPS of \$2.73, down 14 percent from \$3.19 per share earned in the same period last year. Diluted EPS includes a \$0.53 net reduction related to the mark-to-market valuation of certain commodity positions in the nine-month period ended February 22, 2009, compared to a \$0.30 net benefit in fiscal 2008. The nine-month period ended February 22, 2009, also includes a \$0.21 gain related to the divestiture of our *Pop Secret* product line, and an \$0.08 gain from the settlement with the insurance carrier covering our *La Salteña* pasta manufacturing facility in Argentina. Finally, the nine-month period ended February 22, 2009, includes a \$0.15 charge from a court ruling on an uncertain tax matter, compared to a benefit of \$0.09 in the same period a year ago.

Net sales growth of 8 points during the nine-month period ended February 22, 2009, was the result of 1 point of combined segment volume growth and 8 points of growth from net price realization and mix, partially offset by 1 point of unfavorable foreign exchange.

Components of net sales growth

Nine-Month Period Ended Feb. 22, 2009 vs. Nine-Month Period Ended Feb. 24, 2008	Bakeries and Foodservice			Combined Segments
	U.S. Retail	International		
Volume growth (a)	4 pts	-1 pts	-8 pts	1 pts
Net price realization and mix	6 pts	11 pts	13 pts	8 pts
Foreign currency exchange	NA	-6 pts	Flat	-1 pts
Net sales growth	10 pts	4 pts	5 pts	8 pts

- (a) Measured in tons based on the stated weight of our product shipments.

Cost of sales increased \$1,017 million from the nine-month period ended February 24, 2008, to \$7,357 million. Higher volume drove \$46 million of this increase. Higher input costs and changes in mix increased cost of sales by \$550 million. In the nine-month period ended February 22, 2009, we recorded a \$289 million net increase in cost of

Table of Contents

sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 6 to our Consolidated Financial Statements included in this Form 10-Q, compared to a net decrease of \$168 million in the same period of fiscal 2008. In fiscal 2008, we recorded \$17 million of accelerated depreciation on long-lived assets associated with our previously announced restructuring action at our plant in Trenton, Ontario. In the nine months ended February 24, 2008, we also incurred \$19 million of costs related to the voluntary recall of certain *Totino's* and *Jeno's* frozen pizza.

SG&A expenses were up \$193 million in the nine-month period ended February 22, 2009, versus the same period in fiscal 2008. SG&A expenses as a percent of net sales in fiscal 2009 increased 30 basis points compared to fiscal 2008. The increase in SG&A expenses was primarily driven by a 15 percent increase in consumer marketing expense and higher employee compensation costs. These higher costs were partially offset by a \$41 million settlement we finalized during the third quarter of fiscal 2009 with the insurance carrier covering our *La Salteña* pasta manufacturing facility in Argentina. In addition, we recorded a \$16 million charge to write down the value of a corporate asset. During the nine-month period ended February 22, 2009, we recorded a **divestiture gain** of \$129 million related to the sale of our *Pop Secret* product line for \$192 million.

Restructuring, impairment, and other exit costs were comprised of the following:

In Millions	Nine-Month Period Ended	
	Feb. 22, 2009	Feb. 24, 2008
Closure of Trenton, Ontario frozen dough plant	\$ 4.4	\$ 9.8
Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant	1.3	3.0
Closure of Poplar, Wisconsin plant	0.7	2.7
Closure of Allentown, Pennsylvania frozen waffle plant		10.8
Gain on sale of previously closed Vallejo, California plant		(7.1)
Charges associated with restructuring actions previously announced		3.1
Total	\$ 6.4	\$ 22.3

We did not undertake any new restructuring actions in the nine-month period ended February 22, 2009. We incurred \$6 million of incremental plant closure expenses related to previously announced restructuring activities in the nine-month period ended February 22, 2009. We expect to make limited use of our Trenton, Ontario facility during fiscal 2009, while we evaluate sublease or lease termination options. The charges we expect to incur with respect to previously announced restructuring actions are \$17 million in fiscal 2009, and an additional \$1 million in fiscal 2010. **Net interest expense** for the nine-month period ended February 22, 2009, totaled \$288 million, a \$44 million decrease from the same nine-month period last year. Average interest bearing instruments decreased \$609 million leading to a \$27 million decrease in net interest, and average interest rates decreased 33 basis points generating a \$17 million decrease in net interest. Average debt balances decreased as a result of share repurchase timing.

The **effective tax rate** for the nine-month period ended February 22, 2009, was 38.3 percent compared to 34.0 percent for the same period of fiscal 2008. The 4.3 percentage point increase in the effective rate was primarily due to the court decisions on an uncertain tax matter as discussed previously in this MD&A. The rate was also impacted by favorable discrete international tax benefits and increased benefits from foreign tax credits.

After-tax earnings from joint ventures for the nine-month period matched prior-year levels. In fiscal 2009, net sales for CPW increased 5 percent, on 3 points of volume growth and favorable foreign exchange. In fiscal 2008, CPW recorded a gain on the sale of a manufacturing facility related to a previously announced restructuring action. Our after-tax share of that gain, net of associated costs, was \$11 million. In addition, during the third quarter of

Table of Contents

fiscal 2008, CPW recorded new restructuring and impairment charges. Our after-tax share of those charges was \$3 million of expense. Net sales for our Häagen-Dazs joint venture in Japan increased 5 percent over the same period last year, with favorable foreign currency exchange and net price realization more than offsetting volume declines. During the third quarter of fiscal 2008, the 8th Continent soy milk business was sold. Our 50 percent share of the after-tax gain on the sale was \$2 million.

Average diluted shares outstanding increased by 0.2 million for the nine-month period ended February 22, 2009, from the same period a year ago, primarily due to the issuance of 14 million shares of common stock in the second quarter of fiscal 2008 to settle the forward contract with Lehman Brothers, the issuance of common stock upon stock option exercises, the issuance of annual stock awards, the vesting of restricted stock units, and shares issued to acquire Humm Foods, offset by the repurchase of 19 million shares of our common stock since the end of the third quarter of fiscal 2008.

SEGMENT OPERATING RESULTS**U.S. Retail Segment Results**

Net sales for our U.S. Retail operations grew 8 percent in the third quarter of fiscal 2009 to \$2,496 million. Volume on a tonnage basis contributed 1 point of growth, and net price realization and product mix added 7 points of growth. Net sales for our U.S. Retail operations were up 10 percent in the nine-month period ended February 22, 2009, to \$7,571 million. Net price realization and product mix added 6 points of growth and volume on a tonnage basis contributed 4 points of growth.

U.S. Retail Net Sales Percentage Change by Division

	Quarter Ended Feb. 22, 2009	Nine-Month Period Ended Feb. 22, 2009
Big G	13%	10%
Meals	5	8
Pillsbury	15	11
Yoplait	7	13
Snacks	-4	4
Baking Products	16	18
Small Planet Foods	Flat	24
Total	8%	10%

During the third quarter of fiscal 2009, net sales for Big G cereals grew 13 percent including gains by *MultiGrain Cheerios*, *Honey Nut Cheerios*, *Cinnamon Toast Crunch*, and the *Fiber One* product line. The Meals division recorded a 5 percent net sales increase, led by *Helper* dinner mixes, the new *Macaroni Grill* dinner mix line, *Progresso* ready-to-serve soups and *Green Giant* frozen vegetables. Pillsbury net sales grew 15 percent led by *Totino's* pizza and *Pizza Rolls* snacks, *Pillsbury* refrigerated dough products, and new *Pillsbury Savorings* frozen appetizers. Net sales for Yoplait grew 7 percent, led by contributions from the *Yoplait Light* line. Snacks net sales decreased 4 percent due to the absence of *Pop Secret* sales in the period this year. Net sales for Baking Products rose 16 percent, reflecting gains by *Betty Crocker* dessert mixes, *Bisquick* baking mix and *Gold Medal* flour. Net sales for Small Planet Foods remained flat, including contributions from the *Lärabar* product line acquired in the first quarter of fiscal 2009 offset by the voluntary recall of certain peanut butter-flavored *Lärabar* and *Cascadian Farm* snack bars in the third quarter of 2009.

Operating profits for the third quarter of fiscal 2009 increased 1 percent to \$490 million from \$486 million in the same period a year ago. Favorable net price realization contributed \$182 million and volume growth drove \$19

Table of Contents

million of the operating profit increase. This was offset by higher input costs of \$144 million and an 11 percent increase in consumer marketing expenses.

Operating profits for the nine-month period ended February 22, 2009, improved 7 percent to \$1,654 million from \$1,543 million in the same period a year ago. Favorable net price realization contributed \$474 million and volume growth drove \$126 million of the operating profit increase. This was partially offset by higher input costs of \$296 million and a 17 percent increase in consumer marketing expenses. In addition, voluntary product recalls reduced operating profits by \$22 million in fiscal 2008.

International Segment Results

Net sales for our International segment were down 5 percent in the third quarter of fiscal 2009 to \$580 million. This decrease was driven by 15 points of unfavorable foreign currency exchange, partially offset by 9 points of net price realization and mix and 1 point of volume increase.

Net sales were up 4 percent in the nine-month period ended February 22, 2009, to \$1,946 million. This growth was driven by 11 points of net price realization and mix, partially offset by 1 point of volume decline and 6 points of unfavorable foreign currency exchange.

International Net Sales Percentage Change by Geographic Region

	Quarter Ended Feb. 22, 2009	Nine-Month Period Ended Feb. 22, 2009
Europe	-13%	Flat
Canada	-12	-6%
Asia/Pacific	5	16
Latin America	8	12
Total	-5%	4%

For the third quarter of fiscal 2009, net sales in Europe declined by 13 percent driven by unfavorable foreign currency exchange, partially offset by *Old El Paso* sales growth and introductory product shipments of new *Häagen-Dazs* smoothies in the United Kingdom. Net sales in Canada declined 12 percent due to unfavorable foreign currency exchange, partially offset by growth from cereals and *Nature Valley* snacks. Net sales in the Asia/Pacific region grew by 5 percent, including increased sales of *Wanchai Ferry* in China and *Old El Paso* dinner kits in Australia. Latin America net sales increased 8 percent primarily due to sales growth from *Nature Valley* granola bars and *Diablitos* sandwich spread.

Operating profits for the third quarter of fiscal 2009 decreased 6 percent to \$49 million versus a year ago, primarily due to unfavorable foreign currency exchange.

Operating profits for the nine-month period ended February 22, 2009, were \$207 million, flat with the same period a year ago, as unfavorable foreign currency exchange was offset by net price realization.

Bakeries and Foodservice Segment Results

Net sales for our Bakeries and Foodservice segment decreased 6 percent to \$462 million in the third quarter of fiscal 2009. Net price realization and product mix drove 6 points of net sales growth. This was more than offset by a 12 point decline in volume.

Net sales for our Bakeries and Foodservice segment increased 5 percent to \$1,528 million in the nine-month period ended February 22, 2009. The increase in net sales was driven mainly by 13 points of net price realization and product mix. This was partially offset by an 8 point decline in volume, mainly in the bakery and distributors/restaurants channels.

Table of Contents**Bakeries and Foodservice Net Sales Percentage Change by Customer Channel**

	Quarter Ended Feb. 22, 2009	Nine-Month Period Ended Feb. 22, 2009
Distributors/restaurants	-1%	2%
Bakery	-10	8
Convenience stores and vending	-5	4
Total	-6%	5%

Operating profits for the segment for the third quarter of fiscal 2009 were \$22 million, down from \$56 million in the third quarter of fiscal 2008. The decrease was primarily driven by declines in volume and a decline in grain merchandising earnings from historically high levels last year.

For the nine-month period ended February 22, 2009, operating profits for the segment were \$113 million, down from \$138 million in the same period a year ago. The decrease for the nine-month period reflects a reduction in grain merchandising earnings as well as a decline in volume.

Unallocated Corporate Items

For the third quarter of fiscal 2009, unallocated corporate items were \$46 million of income compared to \$106 million of income in fiscal 2008. In the third quarter of fiscal 2009, we recorded a \$71 million net increase in income related to mark-to-market valuations of certain commodity positions and grain inventories as described in Note 6 to our Consolidated Financial Statements included in this Form 10-Q, compared to a net increase in income of \$151 million in the third quarter of fiscal 2008. During the third quarter of fiscal 2009, we also recognized a \$41 million gain from an insurance settlement as discussed previously in this MD&A and we recorded a \$13 million charge to write down the value of a corporate asset.

For the nine-month period ended February 22, 2009, unallocated corporate items were \$405 million of expense compared to \$26 million of income for the same period last year. In the nine-month period ended February 22, 2009, we recorded a \$289 million net increase in expense related to mark-to-market valuations of certain commodity positions and grain inventories, compared to a net increase of \$168 million in income in the same period a year ago. During the third quarter of fiscal 2009, we also recognized a \$41 million gain from an insurance settlement as discussed previously in this MD&A and we recorded a \$16 million charge to write down the value of a corporate asset.

IMPACT OF INFLATION

For fiscal 2009, we anticipate inflation in our input costs at an annual rate of 9 percent. In the nine-month period ended February 22, 2009, we experienced input cost inflation above the annual rate. In the fourth quarter of fiscal 2009 we are anticipating input cost inflation will be below the annual rate as we begin to draw on lower-cost commodity coverage positions.

LIQUIDITY

During the nine-month period ended February 22, 2009, our operations generated \$1,130 million of cash compared to \$914 million in the same period last year primarily reflecting the reduced use of working capital in fiscal 2009.

Working capital used \$677 million less cash during the nine-month period ended February 22, 2009, than the same period in fiscal 2008. Inventories used \$381 million less cash and accounts payable used \$144 million more cash year over year due to decreases in grain prices and grain inventory levels in fiscal 2009. Other current liabilities

Table of Contents

were a \$284 million increased source of cash, primarily due to lower cash taxes paid and higher consumer marketing liabilities.

Investing activities used \$156 million of cash during the nine-month period ended February 22, 2009, a decrease of \$138 million from the \$294 million use of cash during the same period last year, primarily due to proceeds from the sale of our *Pop Secret* product line for \$192 million and the \$41 million received in the third quarter related to insurance proceeds from the settlement with the insurance carrier covering the loss at our *La Salteña* pasta manufacturing facility in Argentina. These proceeds will offset the future capital expenditures required to replace the manufacturing facility which was destroyed by fire in fiscal 2008. Capital expenditures in fiscal 2009 were \$52 million higher than the same period last year. In addition, during the first quarter of fiscal 2008 we sold our Vallejo, California plant and received proceeds of \$11 million.

Financing activities used \$586 million of cash in the nine-month period ended February 22, 2009. Proceeds from the issuance of long term debt of \$1.9 billion were used to pay down commercial paper. In addition, we repurchased 19 million shares of common stock for an aggregate purchase price of \$1.2 billion and funded \$438 million of dividend payments.

On March 9, 2009, our Board of Directors approved a quarterly dividend of 43 cents per share, payable on May 1, 2009, to shareholders of record on April 9, 2009. During the nine-month period ended February 22, 2009, we paid \$438 million in dividends compared to \$395 million in the same period last year. In addition, in fiscal 2008, the Board of Directors approved the retirement of 125 million shares of common stock in treasury effective December 10, 2007. This action reduced common stock by \$12 million, reduced additional paid-in capital by \$5,068 million, and reduced common stock in treasury by \$5,081 million on our Consolidated Balance Sheets as of that date.

CAPITAL RESOURCES

Our capital structure was as follows:

In Millions	Feb. 22, 2009	May 25, 2008
Notes payable	\$ 1,413.8	\$ 2,208.8
Current portion of long-term debt	518.3	442.0
Long-term debt	5,755.4	4,348.7
Total debt	7,687.5	6,999.5
Minority interests	242.3	242.3
Stockholders' equity	5,537.1	