

CAMDEN PROPERTY TRUST

Form 10-Q

October 31, 2008

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**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 September 30, 2008**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number: 1-12110**  
**CAMDEN PROPERTY TRUST**  
*(Exact Name of Registrant as Specified in Its Charter)*

TEXAS  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

76-6088377  
*(I.R.S. Employer Identification  
Number)*

3 Greenway Plaza, Suite 1300, Houston, Texas 77046  
*(Address of Principal Executive Offices) (Zip Code)*  
(713) 354-2500  
*(Registrant's Telephone Number, Including Area Code)*  
N/A

*(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller Reporting  
(Do not check if a smaller      Company   
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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

As of October 29, 2008, there were 53,260,105 shares of Common Shares of Beneficial Interest, \$0.01 par value, outstanding.



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**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

<i>(In thousands)</i>	<b>ASSETS</b>	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Real estate assets, at cost			
Land		\$ 745,085	\$ 730,548
Buildings and improvements		4,442,067	4,316,472
		5,187,152	5,047,020
Accumulated depreciation		(952,883)	(868,074)
Net operating real estate assets		4,234,269	4,178,946
Properties under development, including land		323,300	446,664
Investments in joint ventures		15,663	8,466
Properties held for sale, including land		9,495	25,253
Total real estate assets		4,582,727	4,659,329
Accounts receivable affiliates		36,868	35,940
Notes receivable			
Affiliates		58,240	50,358
Other		8,710	11,565
Other assets, net		111,847	126,996
Cash and cash equivalents		29,517	897
Restricted cash		4,971	5,675
Total assets		\$ 4,832,880	\$ 4,890,760

**LIABILITIES AND SHAREHOLDERS EQUITY**

Liabilities			
Notes payable			
Unsecured		\$ 2,096,285	\$ 2,265,319
Secured		727,235	562,776
Accounts payable and accrued expenses		86,668	107,403
Accrued real estate taxes		40,664	24,943
Distributions payable		42,968	42,689
Other liabilities		124,915	136,365
Total liabilities		3,118,735	3,139,495

Commitments and contingencies

Minority interests

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Perpetual preferred units	97,925	97,925
Common units	93,816	111,624
Other minority interests	8,438	10,403
Total minority interests	200,179	219,952
Shareholders' equity		
Common shares of beneficial interest	660	654
Additional paid-in capital	2,232,436	2,209,631
Distributions in excess of net income	(238,301)	(227,025)
Employee notes receivable	(298)	(1,950)
Treasury shares, at cost	(463,108)	(433,874)
Accumulated other comprehensive loss	(17,423)	(16,123)
Total shareholders' equity	1,513,966	1,531,313
Total liabilities and shareholders' equity	\$ 4,832,880	\$ 4,890,760

See Notes to Condensed Consolidated Financial Statements.

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**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
<i>(In thousands, except per share amounts)</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Property revenues</b>				
Rental revenues	\$ 140,062	\$ 133,921	\$ 413,070	\$ 395,569
Other property revenues	20,524	17,000	56,928	46,793
Total property revenues	160,586	150,921	469,998	442,362
<b>Property expenses</b>				
Property operating and maintenance	47,925	42,801	128,080	117,564
Real estate taxes	18,045	16,015	53,434	48,255
Total property expenses	65,970	58,816	181,514	165,819
<b>Non-property income</b>				
Fee and asset management	2,350	1,765	6,893	6,571
Interest and other income	1,234	2,008	3,659	5,380
Income (loss) on deferred compensation plans	(10,550)	1,261	(19,730)	8,402
Total non-property income (loss)	(6,966)	5,034	(9,178)	20,353
<b>Other expenses</b>				
Property management	5,007	4,448	15,188	13,976
Fee and asset management	1,198	971	4,619	3,402
General and administrative	7,513	8,110	23,887	24,076
Interest	32,838	27,599	98,697	84,403
Depreciation and amortization	44,086	41,444	129,349	118,077
Amortization of deferred financing costs	798	905	2,121	2,712
Expense (benefit) on deferred compensation plans	(10,550)	1,261	(19,730)	8,402
Total other expenses	80,890	84,738	254,131	255,048
<b>Income from continuing operations before gain on sale of properties, gain on early retirement of debt, equity in income (loss) of joint ventures, minority interests and income taxes</b>				
	6,760	12,401	25,175	41,848
Gain on sale of properties, including land	1,823		2,929	
Gain on early retirement of debt	2,440		4,738	
Equity in income (loss) of joint ventures	(261)	(147)	(782)	1,072
Income allocated to minority interests				
Distributions on perpetual preferred units	(1,750)	(1,750)	(5,250)	(5,250)
Income allocated to common units and other minority interests	(1,005)	(1,225)	(3,400)	(3,355)



<b>Income from continuing operations before income taxes</b>	8,007	9,279	23,410	34,315
Income tax expense - current	(83)	(353)	(516)	(2,574)
<b>Income from continuing operations</b>	7,924	8,926	22,894	31,741
Income from discontinued operations	150	3,145	2,713	9,772
Gain on sale of discontinued operations	65,599		80,275	30,976
Income from discontinued operations allocated to common units		(219)		(5,008)
<b>Net income</b>	\$ 73,673	\$ 11,852	\$ 105,882	\$ 67,481

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**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
<i>(In thousands, except per share amounts)</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Earnings per share basic</b>				
Income from continuing operations	\$ 0.14	\$ 0.15	\$ 0.41	\$ 0.54
Income from discontinued operations, including gain on sale	1.19	0.05	1.51	0.61
Net income	\$ 1.33	\$ 0.20	\$ 1.92	\$ 1.15
<b>Earnings per share diluted</b>				
Income from continuing operations	\$ 0.14	\$ 0.15	\$ 0.41	\$ 0.53
Income from discontinued operations, including gain on sale	1.18	0.05	1.48	0.60
Net income	\$ 1.32	\$ 0.20	\$ 1.89	\$ 1.13
<b>Distributions declared per common share</b>	\$ 0.70	\$ 0.69	\$ 2.10	\$ 2.07
<b>Weighted average number of common shares outstanding</b>	55,367	58,073	55,228	58,590
<b>Weighted average number of common and common dilutive equivalent shares outstanding</b>	56,008	58,993	55,889	59,634
<b>Condensed Consolidated Statements of Comprehensive Income</b>				
<b>Net income</b>	\$ 73,673	\$ 11,852	\$ 105,882	\$ 67,481
<b>Other comprehensive income (loss)</b>				
Unrealized loss on cash flow hedging activities	(1,570)		(1,402)	
Gain on postretirement obligations	103		103	
<b>Comprehensive income</b>	\$ 72,206	\$ 11,852	\$ 104,583	\$ 67,481

See Notes to Condensed Consolidated Financial Statements.

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**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<i>(In thousands)</i>	<b>Nine Months</b>	
	<b>Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 105,882	\$ 67,481
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization, including discontinued operations	126,461	122,867
Gain on sale of discontinued operations	(80,275)	(30,976)
Amortization of deferred financing costs	2,138	2,732
Equity in loss (income) of joint ventures	782	(1,072)
Distributions of income from joint ventures	3,813	3,977
Gain on sale of properties, including land	(2,929)	
Gain on early retirement of debt	(4,738)	
Income allocated to minority interests	8,650	8,363
Accretion of discount on unsecured notes payable	429	449
Share-based compensation	5,809	5,208
Interest notes receivable affiliates	(3,093)	(4,281)
Net change in operating accounts	16,384	10,265
 Net cash from operating activities	 \$ 179,313	 \$ 185,013
 <b>Cash flows from investing activities</b>		
Acquisition of operating properties	\$	\$ (83,031)
Development and capital improvements	(169,541)	(342,797)
Proceeds from sales of properties, including land and discontinued operations	123,490	48,679
Proceeds from partial sales of assets to joint ventures	52,509	
Distributions of investments from joint ventures	955	2,463
Investment in joint ventures	(12,141)	(5,823)
Issuance of notes receivable other		(8,710)
Payments received on notes receivable other	2,855	1,000
Increase in notes receivable affiliates	(3,486)	(2,491)
Earnest money deposits on potential transactions		(825)
Change in restricted cash	704	(1,183)
Other	(3,032)	(5,886)
 Net cash from investing activities	 \$ (7,687)	 \$ (398,604)

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**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<i>(In thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from financing activities</b>		
Net (decrease) increase in unsecured line of credit and short-term borrowings	\$ (115,000)	\$ 342,000
Proceeds from notes payable	382,059	307,990
Repayment of notes payable	(248,517)	(217,223)
Distributions to shareholders and minority interests	(129,117)	(133,694)
Repurchase of common shares and units	(31,652)	(85,349)
Repayment of employee notes receivable	1,671	151
Net increase in accounts receivable affiliates	(817)	(1,730)
Common share options exercised	1,717	3,611
Payment of deferred financing costs	(3,996)	(3,435)
Other	646	1,443
 Net cash from financing activities	 \$ (143,006)	 \$ 213,764
 Net increase in cash and cash equivalents	 \$ 28,620	 \$ 173
<b>Cash and cash equivalents, beginning of period</b>	<b>897</b>	<b>1,034</b>
 <b>Cash and cash equivalents, end of period</b>	 <b>\$ 29,517</b>	 <b>\$ 1,207</b>
 <b>Supplemental information</b>		
Cash paid for interest, net of interest capitalized	\$ 97,408	\$ 80,254
Cash paid for income taxes	1,613	2,570
 <b>Supplemental schedule of noncash investing and financing activities</b>		
Distributions declared but not paid	\$ 42,965	\$ 44,180
Decrease in liabilities associated with construction and capital expenditures	19,736	2,327
Debt disposed of through dispositions	14,010	
Conversion of operating partnership units to common shares	13,198	11,638
Value of shares issued under benefit plans, net of cancellations	11,472	15,790
Minority interests issued in connection with real estate contribution		532

See Notes to Condensed Consolidated Financial Statements.

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**CAMDEN PROPERTY TRUST**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Description of Business**

*Business.* Formed on May 25, 1993, Camden Property Trust, a Texas real estate investment trust ( REIT ), is engaged in the ownership, development, construction, and management of multifamily apartment communities. Our multifamily apartment communities are referred to as communities, multifamily communities, properties, or multifamily properties in the following discussion. As of September 30, 2008, we owned interests in, operated, or were developing 186 multifamily properties comprising 64,329 apartment homes located in 13 states and the District of Columbia. We had 1,908 apartment homes under development at 7 of our multifamily properties, including 807 apartment homes at 3 multifamily properties owned through joint ventures, in addition to other sites we may develop into multifamily apartment communities.

**2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements**

*Principles of Consolidation.* Our consolidated financial statements include our accounts, the accounts of variable interest entities ( VIEs ) in which we are the primary beneficiary, and the accounts of other subsidiaries and joint ventures over which we have control. All intercompany transactions, balances, and profits have been eliminated in consolidation. Investments acquired or created are evaluated based on Financial Accounting Standards Board ( FASB ) Interpretation ( FIN ) 46R, *Consolidation of Variable Interest Entities* (as revised), which requires the consolidation of VIEs in which we are considered to be the primary beneficiary. If the investment is determined not to be within the scope of FIN 46R, then the investments are evaluated for consolidation using American Institute of Certified Public Accountants Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and Accounting Research Bulletin 51, *Consolidated Financial Statements*. If we are the general partner in a limited partnership, we also consider the guidance of Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, to assess whether any rights held by the limited partners overcome the presumption of control by us.

*Interim Financial Reporting.* We have prepared these financial statements in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial statements and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all information and footnote disclosures normally included for complete financial statements. While we believe the disclosures presented are adequate for interim reporting, these interim financial statements should be read in conjunction with the financial statements and notes included in our 2007 Form 10-K. In the opinion of management, all adjustments and eliminations, consisting of normal recurring adjustments, necessary for a fair representation of our financial statements have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results which may be expected for the full year.

*Asset Impairment.* Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. When impairment exists the long-lived asset is adjusted to its respective fair value. We consider projected future undiscounted cash flows, trends, and other factors in our assessment of whether impairment conditions exist. While we believe our estimates of future cash flows are reasonable, different assumptions regarding such factors as market rents, economies, and occupancies could significantly affect these estimates. In determining fair value, management uses appraisals, management estimates, or discounted cash flow calculations. In addition, we continually evaluate our investments in joint ventures and mezzanine construction financing and if we believe there is an other than temporary decline in market value we will record an impairment charge based on these evaluations.

*Cash and Cash Equivalents.* All cash and investments in money market accounts and other highly liquid securities with a maturity of three months or less at the date of purchase are considered to be cash and cash equivalents.

*Cost Capitalization.* Real estate assets are carried at cost plus capitalized carrying charges. Carrying charges are primarily interest and real estate taxes which are capitalized as part of properties under development. Expenditures directly related to the development, acquisition, and improvement of real estate assets, excluding internal costs

relating to acquisitions of operating properties, are capitalized at cost as land, and buildings and improvements. Indirect development costs, including salaries and benefits and other related costs directly attributable to the development of properties are also capitalized. All construction and carrying costs are capitalized and reported in the balance sheet as properties under development until the apartment homes are substantially completed. Upon substantial completion of the apartment homes, the total cost for the apartment homes and the associated land is transferred to buildings and improvements and land, respectively, and the assets are depreciated over their estimated useful lives using the straight-line method of depreciation.

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As discussed above, carrying charges are principally interest and real estate taxes capitalized as part of properties under development and buildings and improvements. Capitalized interest was \$4.0 million and \$13.6 million for the three and nine months ended September 30, 2008, respectively, and \$6.2 million and \$16.7 million for the three and nine months ended September 30, 2007, respectively. Capitalized real estate taxes were \$0.9 million and \$3.2 million for the three and nine months ended September 30, 2008, respectively, and \$0.8 million and \$2.7 million for the three and nine months ended September 30, 2007, respectively.

Where possible, we stage our construction to allow leasing and occupancy during the construction period, which we believe minimizes the duration of the lease-up period following completion of construction. Our accounting policy related to properties in the development and leasing phase is all operating expenses associated with completed apartment homes are expensed.

We capitalize renovation and improvement costs we believe extend the economic lives of depreciable property. Capital expenditures subsequent to initial construction are capitalized and depreciated over their estimated useful lives, which range from 3 to 20 years.

Depreciation and amortization is computed over the expected useful lives of depreciable property on a straight-line basis with lives generally as follows:

	Estimated Useful Life
Buildings and improvements	5-35 years
Furniture, fixtures, equipment, and other	3-20 years
Intangible assets (in-place leases and above and below market leases)	underlying lease term

*Derivative Instruments.* We utilize derivative financial instruments to manage interest rate risk, and we designate the derivative instruments as cash flow hedges. Derivative instruments are recorded in the balance sheet as either an asset or a liability measured at fair value, with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. For cash flow hedge relationships, changes in the fair value of the derivative instrument deemed effective at offsetting the risk being hedged are reported in other comprehensive income or loss and is reclassified into earnings when the hedged item affects earnings. The ineffective portion is recognized in current period earnings. Derivatives not designated or not qualifying for hedge treatment must be recorded at fair value with gains or losses recognized in earnings in the period of change. We do not use derivative instruments for trading or speculative purposes. We use derivative instruments to reduce the potential impact of changes in interest rates on variable-rate debt.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged, and how the hedging instrument's effectiveness in hedging the exposure to the hedged transaction's variability in cash flows attributable to the hedged risk will be assessed and measured. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. We discontinue hedge accounting if a derivative is not determined to be highly effective as a hedge or has ceased to be a highly effective hedge.

As of September 30, 2008, we had \$675 million in variable rate debt subject to cash flow hedges. In addition, we had a construction loan with a maximum principal amount of \$33.1 million which includes a swap on 50% of the projected outstanding loan balance. The swap becomes effective November 2008. See Note 7, *Derivative Instruments and Hedging Activities*, for further discussion of derivative financial instruments.

Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets includes the effective portions of cumulative changes in the fair value of derivatives in qualifying cash flow hedge relationships.

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*Income Recognition.* Our rental and other property revenue is recorded \$

Closure and sale of Contagem, Brazil bread and pasta plant

**0.2 (0.8)**

Charges associated with restructuring actions previously announced

**0.6 2.5 0.8 5.2**

Total

**\$24.9 \$2.5 \$24.1 \$5.2**

In late November 2009, we decided to exit certain underperforming products in our U.S. Retail segment to rationalize capacity for more profitable items. Our decisions to exit these products resulted in a \$24.1 million non-cash charge against the related long-lived assets in the second quarter of fiscal 2010. No employees were affected by these actions. We expect to recognize \$2.5 million of other exit costs related to these actions, which we anticipate to be completed by the end of the second quarter of fiscal 2011. In addition, we recorded \$0.8 million of costs related to previously announced restructuring actions. During the six-month period ended November 29, 2009, we also recorded a net gain of \$0.8 million related to the closure and sale of our Contagem, Brazil bread and pasta plant.

During the six-month period ended November 23, 2008, we did not undertake any new restructuring actions. We incurred incremental plant closure expenses related to previously announced restructuring activities of \$2.5 million in the second quarter of fiscal 2009, and \$5.2 million in the six-month period ended November 23, 2008.

**(5) Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill during fiscal 2010 were as follows:

<b>In Millions</b>	<b>U.S. Retail</b>	<b>International</b>	<b>Bakeries and Foodservice</b>	<b>Joint Ventures</b>	<b>Total</b>
Balance as of May 31, 2009	\$ 5,098.3	\$ 123.3	\$ 923.0	\$ 518.4	\$ 6,663.0
Other activity, primarily foreign currency translation		4.6		30.3	34.9
Balance as of Nov. 29, 2009	\$ 5,098.3	\$ 127.9	\$ 923.0	\$ 548.7	\$ 6,697.9

The changes in the carrying amount of other intangible assets during fiscal 2010 were as follows:

<b>In Millions</b>	<b>U.S. Retail</b>	<b>International</b>	<b>Joint Ventures</b>	<b>Total</b>
Balance as of May 31, 2009	\$ 3,208.9	\$ 462.6	\$ 75.5	\$ 3,747.0
Other activity, primarily foreign currency translation		15.6	3.8	19.4
Balance as of Nov. 29, 2009	\$ 3,208.9	\$ 478.2	\$ 79.3	\$ 3,766.4



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The components of inventories were as follows:

<b>In Millions</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
Raw materials and packaging	\$ 265.4	\$ 273.1
Finished goods	1,320.9	1,096.1
Grain	175.9	126.9
Excess of FIFO or weighted-average cost over LIFO cost	(133.5)	(149.3)
<b>Total</b>	<b>\$ 1,628.7</b>	<b>\$ 1,346.8</b>

**(7) Financial Instruments, Risk Management Activities, and Fair Values**

**Financial Instruments.** The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities, and notes payable approximate fair value. Marketable securities are carried at fair value. As of November 29, 2009, and May 31, 2009, a comparison of cost and market values of our marketable debt and equity securities is as follows:

<b>In Millions</b>	<b>Cost</b>		<b>Market Value</b>		<b>Gross Gains</b>		<b>Gross Losses</b>	
	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
Available for sale:								
Debt securities	\$ 19.1	\$ 35.1	\$ 19.2	\$ 35.0	\$ 0.1	\$ 0.1	\$	\$ (0.2)
Equity securities	6.1	6.1	13.5	13.8	7.4	7.7		
<b>Total</b>	<b>\$ 25.2</b>	<b>\$ 41.2</b>	<b>\$ 32.7</b>	<b>\$ 48.8</b>	<b>\$ 7.5</b>	<b>\$ 7.8</b>	<b>\$</b>	<b>\$ (0.2)</b>

Earnings include insignificant realized gains from sales of available-for-sale marketable securities. Gains and losses are determined by specific identification. Classification of marketable securities as current or noncurrent is dependent upon management's intended holding period, the security's maturity date, or both. The aggregate unrealized gains and losses on available-for-sale securities, net of tax effects, are classified in accumulated other comprehensive income (AOCI) within stockholders' equity. Scheduled maturities of our marketable securities are as follows:

<b>In Millions</b>	<b>Available for Sale</b>	
	<b>Cost</b>	<b>Market Value</b>
Under 1 year (current)	\$ 11.8	\$ 11.8
From 1 to 3 years	0.8	0.8
From 4 to 7 years	4.4	4.4
Over 7 years	2.1	2.2
Equity securities	6.1	13.5
<b>Total</b>	<b>\$ 25.2</b>	<b>\$ 32.7</b>

Marketable securities with a market value of \$11.8 million as of November 29, 2009, were pledged as collateral for certain derivative contracts.

The fair values and carrying amounts of long-term debt, including the current portion, were \$6,840.7 million and \$6,255.3 million as of November 29, 2009. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments.

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**Risk Management Activities.** 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 utilize derivatives to manage price risk for our principal ingredients and energy costs, including grains (oats, wheat, and corn), oils (principally soybean), non-fat dry milk, natural gas, and diesel fuel. Our primary objective when entering into these derivative contracts is to achieve certainty with regard to the future price of commodities purchased for use in our supply chain. 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.

We use derivatives to manage our exposure to changes in commodity prices. We do not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in cost of sales in our Consolidated Statements of Earnings.

Although we do not meet the criteria for cash flow hedge accounting, we nonetheless believe that these instruments are effective in achieving our objective of providing certainty in the future price of commodities purchased for use in our supply chain. Accordingly, for purposes of measuring segment operating performance these gains and losses are reported in unallocated corporate items outside of segment operating results until such time that the exposure we are managing affects earnings. At that time we reclassify the gain or loss from unallocated corporate items to segment operating profit, allowing our operating segments to realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in unallocated corporate items.

Unallocated corporate items for the quarterly and six-month periods ended November 29, 2009, and November 23, 2008, included:

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008
Net gain (loss) on mark-to-market valuation of commodity positions	\$ 17.5	\$ (225.4)	\$ (11.2)	\$ (272.0)
Net loss (gain) on commodity positions reclassified from unallocated corporate items to segment operating profit	34.1	4.6	60.6	(34.7)
Net mark-to-market revaluation of certain grain inventories	15.8	(48.4)	3.2	(53.9)
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	\$ 67.4	\$ (269.2)	\$ 52.6	\$ (360.6)

As of November 29, 2009, the net notional value of commodity derivatives was \$286.3 million, of which \$178.6 million related to agricultural inputs and \$107.7 million related to energy inputs. These contracts relate 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, LIBOR, and commercial paper rates in the United States and Europe. We use 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 versus floating-rate debt, based on current and projected market conditions. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate

interest amounts based on an agreed upon 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

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underlying debt. Effective gains and losses deferred to AOCI are reclassified into earnings over the life of the associated debt. Ineffective gains and losses are recorded as net interest. The amount of hedge ineffectiveness was less than \$1 million as of November 29, 2009.

**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 and derivatives, using incremental borrowing rates currently available on loans with similar terms and maturities. Ineffective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. The amount of hedge ineffectiveness was a gain of \$1.8 million as of November 29, 2009.

During the second quarter of fiscal 2010 we entered into \$700 million of swaps to convert \$700 million of 5.65% fixed-rate notes due September 10, 2012, to floating rates.

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 November 29, 2009, we still owned \$1.6 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 November 29, 2009, a \$16.0 million pre-tax loss remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

The following table summarizes the notional amounts and weighted-average interest rates of our interest rate swaps. As discussed above, we have neutralized all of our Pillsbury-related pay-fixed swaps with pay-floating swaps; however, we cannot present them on a net basis in the following table because the offsetting occurred with different counterparties. Average floating rates are based on rates as of the end of the reporting period.

<b>In Millions</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
Pay-floating swaps - notional amount	<b>\$ 2,399.7</b>	\$ 1,859.3
Average receive rate	<b>4.6%</b>	5.7%
Average pay rate	<b>0.2%</b>	0.3%
Pay-fixed swaps - notional amount	<b>\$ 2,100.0</b>	\$ 2,250.0
Average receive rate	<b>0.3%</b>	0.5%
Average pay rate	<b>6.4%</b>	6.4%

The swap contracts mature at various dates from fiscal 2010 to 2016 as follows:

<b>In Millions</b>	<b>Pay Floating</b>	<b>Pay Fixed</b>
2010	\$ 9.3	\$ 500.0
2011	17.6	
2012	1,603.3	850.0
2013	714.6	750.0
2014		
Beyond 2014	54.9	
Total	\$ 2,399.7	\$ 2,100.0

**Foreign Exchange Risk.** Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency cash flows related to foreign-dominated commercial paper, 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,

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Japanese yen, and Mexican peso. We mainly use foreign currency forward contracts to selectively hedge our foreign currency cash flow exposures. We also generally swap our foreign-dominated commercial paper borrowings back to U.S. dollars; the gains or losses on these derivatives offset the foreign currency revaluation gains or losses recorded in earnings on the associated borrowings. We generally do not hedge more than 18 months forward.

The amount of hedge ineffectiveness was less than \$1 million as of November 29, 2009.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of November 29, 2009, we had deferred net foreign currency transaction losses of \$95.7 million in AOCI associated with hedging activity.

***Fair Value Measurements and Financial Statement Presentation.*** In September 2006, the FASB issued new accounting guidance on fair value measurements. This guidance provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. The guidance applies to instruments accounted for under previously issued pronouncements that prescribe fair value as the relevant measure of value. We partially adopted the guidance at the beginning of fiscal 2009 for all instruments recorded at fair value on a recurring basis. In the first quarter of fiscal 2010 we adopted the remaining provisions of the guidance for all nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. Our adoption of these provisions did not have a material impact on our results of operations or financial condition.

We categorize 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.

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 assumptions about the inputs used in pricing the asset or liability.

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The fair values of our assets, liabilities, and derivative positions recorded at fair value as of November 29, 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)	\$	\$ 7.9	\$	\$ 7.9	\$	\$ (2.0)	\$	\$ (2.0)
Foreign exchange contracts (b) (c)		2.0		2.0		(28.0)		(28.0)
Total		9.9		9.9		(30.0)		(30.0)
Derivatives not designated as hedging instruments:								
Interest rate contracts (a) (d)		165.0		165.0		(211.5)		(211.5)
Foreign exchange contracts (b)		0.1		0.1		(0.2)		(0.2)
Equity contracts (a) (e)						(1.5)		(1.5)
Commodity contracts (b) (g)	4.4	18.5		22.9		(2.9)		(2.9)
Total	4.4	183.6		188.0		(216.1)		(216.1)
Other assets and liabilities reported at fair value:								
Marketable investments (f)	11.5	21.2		32.7				
Grain contracts (g)		21.2		21.2		(18.9)		(18.9)
Long-lived assets (h)		0.4		0.4				
Total	11.5	42.8		54.3		(18.9)		(18.9)
Total assets, liabilities, and derivative positions recorded at fair value	\$ 15.9	\$ 236.3	\$	\$ 252.2	\$	\$ (265.0)	\$	\$ (265.0)

(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.
- (h) We recorded a \$6.6 million non-cash impairment charge in the second quarter of fiscal 2010 to

write down certain long-lived assets to their fair value of \$0.4 million. Fair value was based on recently reported transactions for similar assets in the marketplace. These assets had a book value of \$7.0 million and were associated with the exit activities described in Note 4.

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

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Information related to our cash flow hedges, net investment hedges, and other derivatives not designated as hedging instruments for the quarterly and six-month periods ended November 29, 2009, follows:

In Millions	Quarter Ended Nov. 29, 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)	\$ 2.6	\$ (6.6)	\$	\$	\$ (4.0)
Amount of loss reclassified from AOCI into earnings (a) (b)	(3.8)	(2.5)			(6.3)
Amount of loss recognized in earnings (c) (d)		(0.1)			(0.1)
Derivatives in Fair Value Hedging Relationships:					
Amount of net gain recognized in earnings (e)	1.8				1.8
Derivatives Not Designated as Hedging Instruments:					
Amount of gain recognized in earnings (f)	1.5			17.5	19.0

In Millions	Six-Month Period Ended Nov. 29, 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)	\$ 3.0	\$ (8.6)	\$	\$	\$ (5.6)
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)	(7.6)	0.8			(6.8)
Amount of loss recognized in earnings (c) (d)		(0.3)			(0.3)
Derivatives in Fair Value Hedging Relationships:					
Amount of net gain recognized in earnings (e)	1.8				1.8
Derivatives Not Designated as Hedging Instruments:					
Amount of gain (loss) recognized in earnings (f)	4.0		0.1	(11.2)	(7.1)

(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 selling, general, and administrative (SG&A) expenses for foreign exchange contracts.

(c) All 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) Loss recognized in earnings is reported in SG&A expenses for foreign exchange contracts.

(e) The net amount of gain recognized in earnings is related to the ineffective portion of the hedging relationship and the related hedged items. No amounts were reported as a result of being excluded from the assessment of hedge effectiveness.

- (f) Gain  
(loss) recognized  
in earnings is  
reported in  
interest, net for  
interest rate  
contracts, in cost  
of sales for  
commodity  
contracts, and in  
SG&A expenses  
for equity  
contracts.

***Amounts Recorded in Accumulated Other Comprehensive Loss.*** Unrealized losses from interest rate cash flow hedges recorded in AOCI as of November 29, 2009, totaled \$22.4 million after tax. These deferred losses are primarily related to interest rate swaps we entered into in contemplation of future borrowings and other financing requirements and are being reclassified into net interest over the lives of the hedged forecasted transactions. As of November 29, 2009, we had no amounts from commodity derivatives recorded in AOCI. Unrealized losses from foreign currency cash flow hedges recorded in AOCI as of November 29, 2009, were \$19.9 million after-tax. The net amount of pre-tax gains and losses in AOCI as of November 29, 2009, that we expect to be reclassified into net earnings within the next 12 months is \$43.1 million of expense.

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***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 November 29, 2009, was \$21.8 million. We have posted collateral of \$7.0 million in the normal course of business associated with these contracts. If the credit-risk-related contingent features underlying these agreements were triggered on November 29, 2009, we would be required to post an additional \$14.8 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. We continually monitor our positions and the credit ratings of the counterparties involved and, by policy, limit the amount of credit exposure to any one party. These transactions may expose us to potential losses due to the risk of nonperformance by these counterparties; however, we have not incurred a material loss and do not anticipate incurring any such material losses. We also enter into commodity futures transactions through various regulated exchanges.

The 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 \$72.6 million against which we hold \$32.6 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 that we may access if the counterparty defaults.

**(8) Debt**

The components of notes payable were as follows:

<b>In Millions</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
U.S. commercial paper	\$ 138.3	\$ 401.8
Euro commercial paper	150.0	275.0
Financial institutions	156.1	135.4
Total	\$ 444.4	\$ 812.2

Our commercial paper borrowings are supported by fee-paid committed credit lines consisting of a \$1.9 billion facility expiring in October 2012 and a \$1.1 billion facility expiring in October 2010. As of November 29, 2009, we did not have any outstanding borrowings under these credit lines.

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 these 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 that include a change of control repurchase provision.

Our credit facilities and certain of our long-term debt and noncontrolling interests agreements contain restrictive covenants. As of November 29, 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):

<b>In Millions</b>	<b>Quarter Ended Nov. 29, 2009</b>			<b>Quarter Ended Nov. 23, 2008</b>		
	<b>Pretax</b>	<b>Tax</b>	<b>Net</b>	<b>Pretax</b>	<b>Tax</b>	<b>Net</b>
Net earnings			\$ 565.5			\$ 378.2
Net earnings attributable to noncontrolling interests			1.3			2.0
Net earnings, including earnings attributable to noncontrolling interests			\$ 566.8			\$ 380.2
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ 111.1	\$	\$ 111.1	\$ (426.0)	\$	\$ (426.0)
Net actuarial gain	2.9	(1.1)	1.8			
Other fair value changes:						
Securities	(0.5)	0.2	(0.3)	(4.0)	1.6	(2.4)
Hedge derivatives	(4.0)	1.2	(2.8)	25.4	(7.2)	18.2
Reclassification to earnings:						
Hedge derivatives	6.3	(2.4)	3.9	3.6	(1.5)	2.1
Amortization of losses and prior service costs	2.0	(0.8)	1.2	6.2	(2.2)	4.0
Other comprehensive income (loss) in accumulated other comprehensive loss	117.8	(2.9)	114.9	(394.8)	(9.3)	(404.1)
Other comprehensive income (loss) attributable to noncontrolling interests				(0.1)		(0.1)
Other comprehensive income (loss)	\$ 117.8	\$ (2.9)	\$ 114.9	\$ (394.9)	\$ (9.3)	\$ (404.2)
Total comprehensive income (loss)			\$ 681.7			\$ (24.0)

<b>In Millions</b>	<b>Six-Month Period Ended Nov. 29, 2009</b>			<b>Six-Month Period Ended Nov. 23, 2008</b>		
	<b>Pretax</b>	<b>Tax</b>	<b>Net</b>	<b>Pretax</b>	<b>Tax</b>	<b>Net</b>
Net earnings			\$ 986.1			\$ 656.7
Net earnings attributable to noncontrolling interests			2.7			5.5
Net earnings, including earnings attributable to noncontrolling interests			\$ 988.8			\$ 662.2
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ 149.7	\$	\$ 149.7	\$ (554.2)	\$	\$ (554.2)
Net actuarial gain	5.6	(2.2)	3.4			
Other fair value changes:						
Securities	(0.2)	0.1	(0.1)	(5.4)	2.1	(3.3)

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Hedge derivatives	(5.6)	1.0	(4.6)	41.3	(11.1)	30.2
Reclassification to earnings:						
Hedge derivatives	6.8	(2.6)	4.2	8.8	(3.3)	5.5
Amortization of losses and prior service costs	3.9	(1.5)	2.4	10.2	(3.9)	6.3
Other comprehensive income (loss) in accumulated other comprehensive loss	160.2	(5.2)	155.0	(499.3)	(16.2)	(515.5)
Other comprehensive income attributable to noncontrolling interests	0.2		0.2			
Other comprehensive income (loss)	\$ 160.4	\$ (5.2)	\$ 155.2	\$ (499.3)	\$ (16.2)	\$ (515.5)
Total comprehensive income			\$ 1,144.0			\$ 146.7

Except for reclassifications to earnings, changes in other comprehensive income (loss) are primarily non-cash items.



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Accumulated other comprehensive loss balances, net of tax effects, were as follows:

<b>In Millions</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
Foreign currency translation adjustments	\$ 507.9	\$ 358.2
Unrealized gain (loss) from:		
Securities	4.3	4.4
Hedge derivatives	(42.3)	(41.9)
Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	(1,164.8)	(1,168.2)
Prior service costs	(27.9)	(30.3)
Accumulated other comprehensive loss	\$ (722.8)	\$ (877.8)

**(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 74 to 76 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

Compensation expense related to stock-based payments recognized in SG&A expenses in the Consolidated Statements of Earnings was as follows:

<b>In Millions</b>	<b>Quarter Ended</b>		<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Compensation expense related to stock-based payments	\$ 38.4	\$ 29.6	\$ 97.4	\$ 86.7

As of November 29, 2009, unrecognized compensation expense related to non-vested stock options and restricted stock units was \$245.8 million. This expense will be recognized over 25 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:

<b>In Millions</b>	<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Net cash proceeds	\$ 189.0	\$ 266.8
Intrinsic value of options exercised	\$ 118.8	\$ 210.9

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 2009 and all future grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by our acquisition of The Pillsbury Company 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

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to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained on pages 74 and 75 in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

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

	<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Estimated fair values of stock options granted	\$ 6.39	\$ \$9.42
Assumptions:		
Risk-free interest rate	3.7%	4.4%
Expected term	8.5 years	8.5 years
Expected volatility	18.9%	16.1%
Dividend yield	3.4%	2.7%

Information on stock option activity follows:

	<b>Shares (Thousands)</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (Millions)</b>
Balance as of May 31, 2009	47,303.5	\$ 47.69		
Granted	3,389.7	55.98		
Exercised	(5,041.1)	38.90		
Forfeited or expired	(61.8)	55.21		
Outstanding as of Nov. 29, 2009	45,590.3	\$ 49.27	4.70	\$ 858.6
Exercisable as of Nov. 29, 2009	28,845.6	\$ 44.88	2.82	\$ 669.8

Information on restricted stock unit activity follows:

	<b>Equity Classified</b>		<b>Liability Classified</b>		<b>Weighted- Average Grant-Date Fair Value</b>
	<b>Share-Settled Units (Thousands)</b>	<b>Weighted- Average Grant-Date Fair Value</b>	<b>Share-Settled Units (Thousands)</b>	<b>Weighted- Average Grant-Date Fair Value</b>	
Non-vested as of May 31, 2009	4,391.0	\$ 56.70	158.8	\$ 57.97	874.9
Granted	1,176.1	55.31	71.1	55.84	1,054.0

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Vested	(322.8)	51.86	(7.3)	44.75	(18.7)	59.54
Forfeited or expired	(48.5)	58.11	(5.8)	51.71	(15.0)	59.50
Non-vested as of Nov. 29, 2009	5,195.8	\$ 56.67	216.8	\$ 57.89	1,895.2	\$ 59.26

The total grant-date fair value of restricted stock unit awards that vested in the six-month period ended November 29, 2009 was \$18.2 million, and restricted units with a grant-date fair value of \$28.2 million vested in the six-month period ended November 23, 2008.

**Table of Contents****(11) Earnings Per Share**

Basic and diluted earnings per share (EPS) were calculated using the following:

<b>In Millions, Except per Share Data</b>	<b>Quarter Ended</b>		<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Net earnings	\$ 565.5	\$ 378.2	\$ 986.1	\$ 656.7
Average number of common shares - basic EPS	328.7	333.2	327.6	334.8
Incremental share effect from:				
Stock options (a)	9.0	10.7	8.1	10.9
Restricted stock, restricted stock units, and other (a)	2.9	3.1	2.8	3.0
Average number of common shares - diluted EPS	340.6	347.0	338.5	348.7
Earnings per share - basic	\$ 1.72	\$ 1.14	\$ 3.01	\$ 1.96
Earnings per share - diluted	\$ 1.66	\$ 1.09	\$ 2.91	\$ 1.88

(a) Incremental shares from stock options 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:

<b>In Millions</b>	<b>Quarter Ended</b>		<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Anti-dilutive stock options and restricted stock units	2.3	2.6	6.3	4.0

(12) Share Repurchases

During the second quarter of fiscal 2010, we repurchased 25 thousand shares of common stock for an aggregate purchase price of \$1.5 million. During the six-month period ended November 29, 2009, we repurchased 4.3 million shares of common stock for an aggregate purchase price of \$235.4 million.

During the second quarter of fiscal 2009, we repurchased 10.6 million shares of common stock for an aggregate purchase price of \$708.0 million. During the six-month period ended November 23, 2008, we repurchased 18.8 million shares of common stock for an aggregate purchase price of \$1,227.1 million, of which \$21.4 million was included in current liabilities as of November 23, 2008, and settled after the end of the quarter.

(13) Interest, Net

The components of interest were as follows:

Expense (Income), in Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008
Interest expense	\$ 91.3	\$ 103.4	\$ 186.6	\$ 198.0
Capitalized interest	(1.2)	(1.5)	(2.3)	(2.9)
Interest income	(1.6)	(5.6)	(3.9)	(12.1)
Interest, net	\$ 88.5	\$ 96.3	\$ 180.4	\$ 183.0

**Table of Contents****(14) Statements of Cash Flows**

During the six-month period ended November 29, 2009, we made cash interest payments of \$192.9 million, compared to \$198.0 million in the same period last year. Also, in the six-month period ended November 29, 2009, we made tax payments of \$301.1 million, compared to \$187.0 million in the same period last year. In fiscal 2009 we acquired Humm Foods by issuing to its shareholders 0.9 million shares of our common stock, 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.

**(15) Retirement and Postemployment Benefits**

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

In Millions	Defined Benefit Pension Plans Quarter Ended		Other Postretirement Benefit Plans Quarter Ended		Postemployment Benefit Plans Quarter Ended	
	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008
	Service cost	\$ 17.8	\$ 19.2	\$ 3.2	\$ 3.5	\$ 1.8
Interest cost	57.6	53.8	15.4	15.3	1.4	1.2
Expected return on plan assets	(100.1)	(96.5)	(7.3)	(7.5)		
Amortization of losses	2.2	2.0	0.5	1.8	0.3	0.2
Amortization of prior service costs (credits)	1.7	1.9	(0.4)	(0.3)	0.6	0.5
Other adjustments					2.4	2.3
Net (income) expense	\$ (20.8)	\$ (19.6)	\$ 11.4	\$ 12.8	\$ 6.5	\$ 5.9

In Millions	Defined Benefit Pension Plans Six-Month Period Ended		Other Postretirement Benefit Plans Six-Month Period Ended		Postemployment Benefit Plans Six-Month Period Ended	
	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008	Nov. 29, 2009	Nov. 23, 2008
	Service cost	\$ 35.5	\$ 38.7	\$ 6.4	\$ 7.1	\$ 3.6
Interest cost	115.2	107.9	30.8	30.6	2.8	2.4
Expected return on plan assets	(199.9)	(193.2)	(14.6)	(15.0)		
Amortization of losses	4.2	4.0	1.0	3.6	0.5	0.5
Amortization of prior service costs (credits)	3.4	3.7	(0.8)	(0.7)	1.2	1.1
Other adjustments					4.9	4.5
Net (income) expense	\$ (41.6)	\$ (38.9)	\$ 22.8	\$ 25.6	\$ 13.0	\$ 11.8

**(16) 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 this business segment are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry



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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.

In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks. In markets outside North America, our product categories include super-premium ice cream, 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, mainly to Caribbean and Latin American markets, as well as products we manufacture for sale to our international joint ventures. 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 products including cereals, snacks, refrigerated and soft-serve frozen yogurt, unbaked and fully baked frozen dough products, baking mixes, flour, dinner and side dish products, and custom food items. Many products we sell are branded to the consumer and nearly all are branded to our customers. Our customers include foodservice distributors and operators, convenience store distributors and operators, vending operators, home improvement and electronics retailers, quick service restaurant chains and other independent restaurants, cafeterias, and retail, supermarket, and wholesale bakeries. Following our fiscal 2009 divestitures, substantially all of this segment's operations are located in the United States.

Operating profit for these segments excludes unallocated corporate expense, restructuring, impairment, and other exit costs, and divestiture gains and losses. Unallocated corporate expense includes variances to planned corporate overhead expenses, variances to planned domestic employee benefits and incentives, all stock-based compensation costs, annual contributions to the General Mills Foundation, and other items that are not part of our measurement of segment operating performance. These include gains and losses arising from the revaluation of certain grain inventories and gains and losses from mark-to-market valuation of certain commodity positions until passed back to our operating segments. 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.

As discussed in Note 2, we adopted new accounting guidance on noncontrolling interests at the beginning of fiscal 2010. To conform to the current year's presentation, earnings attributable to noncontrolling interests in foreign subsidiaries of \$0.2 million for the quarter ended November 23, 2008, and \$1.3 million for the six-month period ended November 23, 2008, which were previously deducted from the International segment's operating profit, have been reclassified to net earnings attributable to noncontrolling interests.

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Our operating segment results were as follows:

<b>In Millions</b>	<b>Quarter Ended</b>		<b>Six-Month Period Ended</b>	
	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>	<b>Nov. 29, 2009</b>	<b>Nov. 23, 2008</b>
Net sales:				
U.S. Retail	\$ 2,890.6	\$ 2,785.1	\$ 5,314.4	\$ 5,075.4
International	723.9	676.2	1,385.6	1,366.4
Bakeries and Foodservice	463.7	549.5	897.0	1,066.4
<b>Total</b>	<b>\$ 4,078.2</b>	<b>\$ 4,010.8</b>	<b>\$ 7,597.0</b>	<b>\$ 7,508.2</b>
Operating profit:				
U.S. Retail	\$ 718.4	\$ 638.3	\$ 1,355.1	\$ 1,164.6
International	77.1	79.5	146.8	159.5
Bakeries and Foodservice	84.6	63.9	145.8	90.6
<b>Total segment operating profit</b>	<b>880.1</b>	<b>781.7</b>	<b>1,647.7</b>	<b>1,414.7</b>
Unallocated corporate items	(23.5)	291.7	52.0	450.8
Divestiture (gain)		(128.8)		(128.8)
Restructuring, impairment, and other exit costs	24.9	2.5	24.1	5.2
<b>Operating profit</b>	<b>\$ 878.7</b>	<b>\$ 616.3</b>	<b>\$ 1,571.6</b>	<b>\$ 1,087.5</b>

**(17) New Accounting Pronouncements**

In the first quarter of fiscal 2010, we adopted new accounting guidance on business combinations. The guidance establishes principles and requirements for how the acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; 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 users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance also changes the accounting for acquisition-related tax contingencies, requiring all such changes in these contingencies to be recorded in earnings after the effective date. The adoption of the guidance did not have any impact on our results of operations or financial condition.

In the first quarter of fiscal 2010, we adopted new accounting guidance on accounting for equity method investments. The guidance addresses the impact of the issuance of the noncontrolling interests and business combination guidance on accounting for equity method investments. The adoption of the guidance did not have a material impact on our results of operations or financial condition.

In the first quarter of fiscal 2010, we adopted new accounting guidance on financial instruments indexed to an entity's own stock. The guidance defines when adjustment features within contracts are considered to be equity-indexed. The adoption of the guidance did not have any impact on our results of operations or financial condition.

In the first quarter of fiscal 2010, we adopted new accounting guidance issued to assist in determining whether instruments granted in share-based payment transactions are participating securities. The guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. The adoption of the guidance did not have a material impact on our basic and diluted EPS.

In the first quarter of fiscal 2010, we adopted new accounting guidance on convertible debt instruments. The guidance requires issuers to account separately for the liability and equity components of convertible debt instruments that may be settled in cash or other assets. The adoption of the guidance did not have a material impact on our results of operations or financial condition.

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In the first quarter of fiscal 2010, we adopted new accounting guidance on determining the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance applies to intangible assets that are acquired individually or with a group of other assets and intangible assets acquired in business combinations and asset acquisitions. The adoption of the guidance did not have any impact on our results of operations or financial condition.

**(18) Subsequent Events**

The Company has performed an evaluation of subsequent events through December 18, 2009, the date the Company issued these financial statements. Based on our evaluation, no material events have occurred requiring disclosure.

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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 31, 2009, 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****Second Quarter Results**

For the second quarter of fiscal 2010, net sales grew 2 percent to \$4,078 million and total segment operating profit of \$880 million was 13 percent higher than \$782 million in the second quarter of fiscal 2009. (See page 30 for a discussion of this measure not defined by GAAP).

**Net sales** growth of 2 points for the second quarter of fiscal 2010 was the result of 1 point of growth from net price realization and mix, and 1 point from favorable foreign currency exchange. Contributions from volume growth were flat, including the loss of 2 points of growth from divested products.

**Components of net sales growth**

<b>Second Quarter of Fiscal 2010 vs. Second Quarter of Fiscal 2009</b>	<b>U.S. Retail</b>	<b>International</b>	<b>Bakeries and Foodservice</b>	<b>Combined Segments</b>
Volume growth (a)	2 pts	Flat	-10 pts	Flat
Net price realization and mix	2 pts	3 pts	-6 pts	1 pt
Foreign currency exchange	NA	4 pts	Flat	1 pt
Net sales growth	4 pts	7 pts	-16 pts	2 pts

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

**Cost of sales** decreased \$459 million from the second quarter of fiscal 2009 to \$2,332 million. In the second quarter of fiscal 2010, we recorded a \$67 million net decrease in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories compared to a net increase of \$269 million in the second quarter of fiscal 2009. The remainder of the decrease in cost of sales was primarily driven by a decrease in supply chain costs and favorable mix.

**Selling, general, and administrative (SG&A) expenses** were up \$113 million in the second quarter of fiscal 2010 versus the same period in fiscal 2009. SG&A expenses as a percent of net sales in the second quarter of fiscal 2010 increased by 2 percentage points compared with fiscal 2009. The increase in SG&A expenses was primarily driven by a 37 percent increase in advertising and media expense.

There were no divestitures during the second quarter of fiscal 2010. During the second quarter of fiscal 2009 we recorded a **divestiture gain** of \$129 million related to the sale of our *Pop Secret* product line for \$192 million in cash.

**Restructuring, impairment, and other exit costs** were \$25 million for the second quarter of fiscal 2010 and \$2 million for the same period of fiscal 2009. In the second quarter of fiscal 2010, we decided to exit certain underperforming products in our U.S. Retail segment to rationalize capacity for more profitable items. Our decisions to exit these products resulted in a \$24 million non-cash charge against the related long-lived assets in the second quarter of fiscal 2010. No employees were affected by these actions. We expect to recognize \$2 million of other exit

costs related to these actions, which we anticipate to be completed by the end of the second quarter of fiscal 2011. In the second quarter of fiscal 2010, we also incurred incremental plant closure expenses related to previously

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announced restructuring activities of \$1 million. In the second quarter of fiscal 2009, we did not undertake any new restructuring actions. We incurred \$2 million of incremental plant closure expenses related to previously announced restructuring activities.

**Interest, net** for the second quarter of fiscal 2010 totaled \$88 million, an \$8 million decrease from the same period of fiscal 2009. Average interest bearing instruments decreased \$737 million leading to an \$11 million decrease in net interest, while average interest rates increased 20 basis points generating a \$3 million increase in net interest. Average interest bearing instruments decreased due to reduced share repurchase activity in the second quarter of fiscal 2010 versus the same period last year. Average interest rates increased due to a shift from short-term floating rate debt to long-term fixed rate debt versus the same period last year.

The **effective tax rate** for the second quarter of fiscal 2010 was 33.1 percent compared to 33.3 percent for the second quarter of fiscal 2009. The 0.2 percentage point decrease was primarily due to nondeductible expenses in the second quarter of fiscal 2009 and higher tax credits in the second quarter of fiscal 2010. These items were partially offset by more income in higher tax rate jurisdictions.

**After-tax earnings from joint ventures** increased to \$38 million compared to \$33 million in the same quarter last fiscal year. Our share of Cereal Partners Worldwide (CPW) net earnings increased \$3 million, offsetting a 1 percent volume decline. Our share of net earnings of our Häagen-Dazs joint venture in Japan increased \$2 million, reflecting volume growth.

**Average diluted shares outstanding** decreased by 6 million in the second quarter of fiscal 2010 from the same period a year ago due primarily to the timing of share repurchases including the repurchase of 6 million shares since the end of the second quarter of fiscal 2009 and a lower incremental share effect from stock options, partially offset by the issuance of shares of our common stock upon stock option exercises.

**Net earnings** were \$566 million in the second quarter, up 50 percent from \$378 million last year, and we reported **diluted earnings per share (EPS)** of \$1.66, up 52 percent from \$1.09 per share earned in the same period last year. Diluted EPS for the second quarter of fiscal 2010 included a \$0.12 net addition related to the mark-to-market valuation of certain commodity positions compared to a \$0.49 net reduction in fiscal 2009. In addition, in the second quarter of fiscal 2009, we recorded a \$0.22 net gain related to the divestiture of our *Pop Secret* product line.

**Six-month Results**

For the six-month period ended November 29, 2009, net sales grew 1 percent to \$7,597 million and total segment operating profit of \$1,648 million was 16 percent higher than \$1,415 million in the six-month period ended November 23, 2008.

**Net sales** growth of 1 point for the six-month period ended November 29, 2009, was the result of 2 points of growth from net price realization and mix, offset by 1 point from unfavorable foreign currency exchange. Contributions from volume growth were flat, including the loss of 2 points of growth from divested products.

**Components of net sales growth**

<b>Six-Month Period Ended Nov. 29, 2009 vs. Six-Month Period Ended Nov. 23, 2008</b>	<b>U.S. Retail</b>	<b>International</b>	<b>Bakeries and Foodservice</b>	<b>Combined Segments</b>
Volume growth (a)	2 pts	-1 pt	-10 pts	Flat
Net price realization and mix	3 pts	5 pts	-6 pts	2 pts
Foreign currency exchange	NA	-3 pts	Flat	-1 pt
Net sales growth	5 pts	1 pt	-16 pts	1 pt

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

product  
shipments.

**Cost of sales** decreased \$705 million from the six-month period ended November 23, 2008, to \$4,392 million. In the six-month period ended November 29, 2009, we recorded a \$53 million net decrease in cost of sales related to

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mark-to-market valuation of certain commodity positions and grain inventories compared to a net increase of \$361 million in the six-month period ended November 23, 2008. The remainder of the decrease in cost of sales was primarily driven by favorable mix and a decrease in supply chain costs.

**SG&A expenses** were up \$162 million in the six-month period ended November 29, 2009, versus the same period in fiscal 2009. SG&A expenses as a percent of net sales in fiscal 2010 increased by 2 percentage points compared to fiscal 2009. The increase in SG&A expenses was primarily driven by a 27 percent increase in advertising and media expense.

There were no divestitures during the six-month period ended November 29, 2009. During the six-month period ended November 23, 2008, we recorded a **divestiture gain** of \$129 million related to the sale of our *Pop Secret* product line for \$192 million in cash.

**Restructuring, impairment, and other exit costs** were \$24 million for the six-month period ended November 29, 2009, and \$5 million for the same period of fiscal 2009. During the six-month period ended November 29, 2009, we decided to exit certain underperforming products in our U.S. Retail segment to rationalize capacity for more profitable items. Our decisions to exit these products resulted in a \$24 million non-cash charge against the related long-lived assets in the second quarter of fiscal 2010. No employees were affected by these actions. We expect to recognize \$2 million of other exit costs related to these actions, which we anticipate to be completed by the end of the second quarter of fiscal 2011. In addition, we recorded \$1 million of costs related to previously announced restructuring actions and a net gain of \$1 million related to the closure and sale of our Contagem, Brazil bread and pasta plant. In the six-month period ended November 23, 2008, we did not undertake any new restructuring actions. We incurred \$5 million of incremental plant closure expenses related to previously announced restructuring activities in the six-month period ended November 23, 2008.

**Interest, net** for the six-month period ended November 29, 2009, totaled \$180 million, a \$3 million decrease from the same period of fiscal 2009. Average interest bearing instruments decreased \$408 million leading to an \$11 million decrease in net interest, while average interest rates increased 30 basis points generating an \$8 million increase in net interest. Average interest bearing instruments decreased due to reduced share repurchase activity in the six-month period ended November 29, 2009, versus the same period last year. Average interest rates increased due to a shift from short-term floating rate debt to long-term fixed rate debt versus the same period last year.

The **effective tax rate** for the six-month period ended November 29, 2009, was 33.4 percent compared to 33.9 percent for the six-month period ended November 23, 2008. The 0.5 percentage point decrease was primarily due to nondeductible expenses in the first half of fiscal 2009 and higher tax credits in the first half of fiscal 2010. These items were partially offset by more income in higher tax rate jurisdictions in the first half of fiscal 2010.

**After-tax earnings from joint ventures** for the six-month period ended November 29, 2009, decreased to \$62 million compared to \$64 million in the same period in fiscal 2009. Our share of net earnings for CPW decreased \$4 million, reflecting a 1 percent volume decline. Our share of net earnings for our Häagen-Dazs joint venture in Japan increased \$2 million, mainly due to favorable foreign currency exchange rates and net price realization and mix, offset by volume declines.

**Average diluted shares outstanding** decreased by 10 million for the six-month period ended November 29, 2009, from the same period a year ago, due primarily to the timing of share repurchases including the repurchase of 6 million shares since the end of the six-month period ended November 23, 2008, and a lower incremental share effect from stock options, partially offset by the issuance of shares of our common stock upon stock option exercises.

**Net earnings** were \$986 million in the six-month period ended November 29, 2009, up 50 percent from \$657 million in the same period last year, and we reported **diluted EPS** of \$2.91 in the six month period ended November 29, 2009 up 55 percent from \$1.88 per share earned in the same period last year. Diluted EPS for the six-month period ended November 29, 2009 included a \$0.09 net gain related to the mark-to-market valuation of certain commodity positions, compared to a \$0.65 net loss in the same period of fiscal 2009. In addition, in the six-month period ended November 23, 2008, we recorded a \$0.21 net gain related to the divestiture of our *Pop Secret* product line.

**Table of Contents****SEGMENT OPERATING RESULTS****U.S. Retail Segment Results**

Net sales for our U.S. Retail operations grew 4 percent in the second quarter of fiscal 2010 to \$2,891 million. Net sales increased across most of our U.S. Retail divisions with net price realization and mix and volume on a tonnage basis each contributing 2 points of growth.

Net sales for our U.S. Retail operations grew 5 percent in the six-month period ended November 29, 2009, to \$5,314 million. Net sales increased across most of our U.S. Retail divisions with net price realization and mix adding 3 points and volume on a tonnage basis contributing 2 points of growth.

**U.S. Retail Net Sales Percentage Change by Division**

	<b>Quarter Ended Nov. 29, 2009</b>	<b>Six-Month Period Ended Nov. 29, 2009</b>
Big G	10%	10%
Meals	Flat	1
Pillsbury	1	5
Yoplait	5	4
Snacks	6	4
Baking Products	5	4
Small Planet Foods	(2)	(4)
Total	4%	5%

During the second quarter of fiscal 2010, net sales for Big G cereals grew 10 percent driven by volume gains on *Chex*, *Cheerios*, and *Fiber One* cereals. The Meals division essentially matched prior year net sales levels, with gains in *Green Giant* frozen vegetables, *Progresso* ready-to-serve soups and *Old El Paso* Mexican products. Pillsbury net sales grew 1 percent including gains on *Pillsbury* refrigerated dough products, *Totino's Pizza* and *Pizza Rolls* snacks, and *Pillsbury Savorings* appetizers. Net sales for Yoplait grew 5 percent, led by gains from *Yoplait Light* and introductory sales of *Yoplait Delights*. Snacks net sales grew 6 percent, driven by *Fiber One* and *Nature Valley* grain snacks and several fruit snack varieties, offset by the divestiture of our *Pop Secret* microwave popcorn product line in fiscal 2009. Net sales for Baking Products rose 5 percent, reflecting gains by *Betty Crocker* dessert mixes. Small Planet Foods net sales were down 2 percent, reflecting organic industry trends.

Operating profits increased 13 percent to \$718 million in the second quarter of fiscal 2010 and 16 percent to \$1,355 million in the six-month period ended November 29, 2009, versus the same periods a year ago, primarily driven by favorable supply chain costs, net price realization, volume and mix, partially offset by higher advertising and media expenses.

**International Segment Results**

Net sales for our International segment were up 7 percent in the second quarter of fiscal 2010 to \$724 million. This growth was driven by 4 points of favorable foreign currency exchange and a 3 point increase from net price realization and mix. Volume matched year-ago levels, including a 2 point decline from divested product lines.

Net sales for our International segment were up 1 percent in the six-month period ended November 29, 2009, to \$1,386 million. This growth was driven by a 5 point increase from net price realization and mix. This increase was offset by 3 points of unfavorable foreign currency exchange and 1 point of volume decline, including a 2 point decline from divested product lines.

**Table of Contents****International Net Sales Percentage Change by Geographic Region**

	<b>Quarter Ended Nov. 29, 2009</b>	<b>Six-Month Period Ended Nov. 29, 2009</b>
Europe	4%	(5)%
Canada	15	9
Asia/Pacific	12	6
Latin America	(8)	(3)
Total	7%	1%

For the second quarter of fiscal 2010, net sales in Europe grew 4 percent driven by *Old El Paso* and *Nature Valley* in the United Kingdom, and dough products in Germany. Net sales in Canada increased 15 percent due to volume increases in the cereal product line as a result of Olympic promotions, new *Nature Valley* launches, and favorable foreign currency exchange. In the Asia/Pacific region, net sales grew 12 percent due to growth of *Häagen-Dazs* Mooncakes in China, along with favorable foreign currency exchange. Latin America net sales decreased 8 percent due to the discontinuation of our bread and pasta brands in Brazil in the fourth quarter of fiscal 2009, partially offset by net price realization on *Diablitos* in Venezuela and higher volume from *La Salteña* in Argentina.

Operating profits declined 3 percent to \$77 million in the second quarter of fiscal 2010 and 8 percent to \$147 million in the six-month period of fiscal 2010 versus the same periods a year ago, reflecting unfavorable foreign currency effects and increased advertising and media expenses.

**Bakeries and Foodservice Segment Results**

Net sales for our Bakeries and Foodservice segment decreased 16 percent to \$464 million in the second quarter of fiscal 2010. Volume declined 10 points, including an 8 point reduction from divested product lines. Net price realization and mix drove a 6 point decrease, primarily from price declines indexed to wheat markets.

Net sales for our Bakeries and Foodservice segment decreased 16 percent to \$897 million in the six-month period ended November 29, 2009. Volume declined 10 points, including a 10 point reduction from divested product lines. Net price realization and mix drove a 6 point decrease, primarily from price declines indexed to wheat markets.

**Bakeries and Foodservice Net Sales Percentage Change by Customer Segment**

	<b>Quarter Ended Nov. 29, 2009</b>	<b>Six-Month Period Ended Nov. 29, 2009</b>
Foodservice Distributors	(6)%	(3)%
Convenience Stores	1	4
Bakeries and National Restaurant Accounts	(23)	(24)
Total	(16)%	(16)%

We realigned our Bakeries and Foodservice customer segments in fiscal 2010 and reclassified previous years to conform to the current year presentation.

Operating profits for the second quarter of fiscal 2010 were \$85 million, up from \$64 million in the second quarter of fiscal 2009. The increase is primarily due to a decrease in supply chain costs and favorable mix.

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Operating profits for the six-month period ended November 29, 2009, were \$146 million, up from \$91 million in the six-month period ended November 23, 2008. The increase is primarily due to a decrease in supply chain costs and favorable mix.

**UNALLOCATED CORPORATE ITEMS**

Unallocated corporate items totaled \$24 million of income in the second quarter of fiscal 2010 compared to \$292 million of expense in the same period in fiscal 2009. In the second quarter of fiscal 2010 we recorded a \$67 million net increase in income related to mark-to-market valuation of certain commodity positions and grain inventories, compared to a \$269 million net increase in expense in the second quarter of fiscal 2009.

Unallocated corporate expense totaled \$52 million in the six-month period ended November 29, 2009, compared to \$451 million in the same period last year. In the six-month period ended November 29, 2009, we recorded a \$53 million net decrease in expense related to mark-to-market valuation of certain commodity positions and grain inventories, compared to a \$361 million net increase in expense in the same period a year ago.

**LIQUIDITY**

During the six-month period ended November 29, 2009, our operations generated \$987 million of cash compared to \$364 million in the same period last year, mainly reflecting the \$329 million increase in net earnings. Also, net earnings for fiscal 2009 included a \$129 million pre-tax gain on the sale of our *Pop Secret* product line.

Cash used by investing activities during the six-month period ended November 29, 2009, was \$215 million, a \$156 million increase over the same period in fiscal 2008. The increased use of cash primarily reflects the \$192 million of proceeds from the divestiture of our *Pop Secret* product line in fiscal 2009. In addition we invested \$258 million in land, buildings, and equipment in fiscal 2010, an increase of \$16 million over the prior year.

Cash used by financing activities increased \$487 million during the six-month period ended November 29, 2009, over the same period a year ago. We repaid \$378 million of notes payable and long term debt in fiscal 2010 versus a \$950 million net issuance of notes payable and long term debt in fiscal 2009. We also used \$970 million less cash to repurchase shares than the same period last year. We paid \$313 million in dividends in fiscal 2010, \$19 million more than the prior year.

**CAPITAL RESOURCES**

Our capital structure was as follows:

<b>In Millions</b>	<b>Nov. 29, 2009</b>	<b>May 31, 2009</b>
Notes payable	\$ 444.4	\$ 812.2
Current portion of long-term debt	607.3	508.5
Long-term debt	5,648.0	5,754.8
Total debt	6,699.7	7,075.5
Noncontrolling interests	244.8	244.2
Stockholders' equity	6,088.9	5,172.3
Total capital	\$ 13,033.4	\$ 12,492.0

Our commercial paper borrowings are supported by fee-paid committed credit lines consisting of a \$1.9 billion facility expiring in October 2012 and a \$1.1 billion facility expiring in October 2010. As of November 29, 2009, we did not have any outstanding borrowings under these credit lines.

Our credit facilities and certain of our long-term debt and noncontrolling interests agreements contain restrictive covenants. As of November 29, 2009, we were in compliance with all of these covenants.

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We have \$607.3 million of long-term debt maturing in the next 12 months that is classified as current. We believe that cash flows from operations, together with available short- and long-term debt financing, will be adequate to meet our liquidity and capital needs for at least the next 12 months.

We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) covering the sale of debt securities. The shelf registration statement will expire in December 2011.

**OFF BALANCE-SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

There were no material changes outside the ordinary course of our business in our contractual obligations or off-balance-sheet arrangements during the first six months of fiscal 2010.

**SIGNIFICANT ACCOUNTING ESTIMATES**

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009. The accounting policies used in preparing our interim fiscal 2010 Consolidated Financial Statements are the same as those described in our Form 10-K, except as discussed in Notes 2, 16 and 17 to our Consolidated Financial Statements included in this Form 10-Q.

Our significant accounting estimates are those that have meaningful impact on the reporting of our financial condition and results of operations. These estimates include our accounting for promotional expenditures, intangible assets, stock compensation, income taxes, and defined benefit pension, other postretirement, and postemployment benefits. The assumptions and methodologies used in the determination of those estimates as of November 29, 2009, are the same as those described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued new accounting guidance that changes the consolidation model for variable interest entities (VIEs). The guidance requires companies to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the company (1) has the power to direct matters that most significantly impact the VIE's economic performance, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The guidance is effective for fiscal years beginning after November 15, 2009, which for us is fiscal 2011. We are currently evaluating the impact of the guidance on our results of operations and financial position.

In December 2008, the FASB issued new guidance on employer's disclosures for post-retirement benefit plan assets. The guidance requires an employer to disclose information on the investment policies and strategies and the significant concentrations of risk in plan assets. An employer must also disclose the fair value of each major category of plan assets as of each annual reporting date together with the information on the inputs and valuation techniques used to develop such fair value measurements. The guidance will be effective for us as of May 30, 2010 and will have no impact on our results of operations or financial position.

**NON-GAAP MEASURES**

We have included in this MD&A a measure of financial performance that is not defined by GAAP. This non-GAAP measure should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

**Total Segment Operating Profit**

This non-GAAP measure is used in internal management reporting and as a component of the Board of Directors rating of our performance for management and employee incentive compensation. Management and the Board of Directors believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate segment performance. A reconciliation of this measure to the relevant GAAP measure, operating profit, is included in Note 16 to the Consolidated Financial Statements included in this Form 10-Q.

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**GLOSSARY**

**AOCI.** Accumulated other comprehensive income (loss).

**Derivatives.** Financial instruments such as futures, swaps, options, and forward contracts that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates, and stock prices.

**Generally Accepted Accounting Principles (GAAP).** Guidelines, procedures, and practices that we are required to use in recording and reporting accounting information in our financial statements.

**Goodwill.** The difference between the purchase price of acquired companies and the related fair values of net assets acquired.

**Hedge accounting.** Accounting for qualifying hedges that allows changes in a hedging instrument's fair value to offset corresponding changes in the hedged item in the same reporting period. Hedge accounting is permitted for certain hedging instruments and hedged items only if the hedging relationship is highly effective, and only prospectively from the date a hedging relationship is formally documented.

**Interest bearing instruments.** Notes payable, long-term debt, including current portion, cash and cash equivalents, and certain interest bearing investments classified within prepaid expenses and other current assets and other assets.

**LIBOR.** London Interbank Offered Rate.

**Mark-to-market.** The act of determining a value for financial instruments, commodity contracts, and related assets or liabilities based on the current market price for that item.

**Noncontrolling interests.** Interests of subsidiaries held by third parties.

**Net mark-to-market valuation of certain commodity positions.** Realized and unrealized gains and losses on derivative contracts that will be allocated to segment operating profit when the exposure we are hedging affects earnings.

**Net price realization.** The impact of list and promoted price changes, net of trade and other price promotion costs.

**Notional principal amount.** The principal amount on which fixed-rate or floating-rate interest payments are calculated.

**OCI.** Other Comprehensive Income.

**Total debt.** Notes payable and long-term debt, including current portion.

**Translation adjustments.** The impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.

**Variable interest entities (VIEs).** A legal structure that is used for business purposes that either (1) does not have equity investors that have voting rights and share in all the entity's profits and losses or (2) has equity investors that do not provide sufficient financial resources to support the entity's activities.

**CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations and assumptions. We also may make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to stockholders.

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The words or phrases will likely result, are expected to, will continue, is anticipated, estimate, plan, project expressions identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those currently anticipated or projected. We wish to caution you not to place undue reliance on any such forward-looking statements.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that could affect our financial performance and could cause our actual results in future periods to differ materially from any current opinions or statements.

Our future results could be affected by a variety of factors, such as: competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in laws and regulations, including labeling and advertising regulations; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in consumer demand for our products; effectiveness of advertising, marketing, and promotional programs; changes in consumer behavior, trends, and preferences, including weight loss trends; consumer perception of health-related issues, including obesity; consolidation in the retail environment; changes in purchasing and inventory levels of significant customers; fluctuations in the cost and availability of supply chain resources, including raw materials, packaging, and energy; disruptions or inefficiencies in the supply chain; volatility in the market value of derivatives used to manage price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure of our information technology systems; resolution of uncertain income tax matters; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war.

You should also consider the risk factors that we identify on pages 7 through 12 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2009, which could also affect our future results.

We undertake no obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events.

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

The estimated maximum potential value-at-risk arising from a one-day loss in fair value for our interest rate and commodity market-risk-sensitive instruments outstanding as of November 29, 2009, was \$38 million and \$5 million, respectively. The \$6 million decrease in interest rate value-at-risk during the six-month period ended November 29, 2009, was due to decreased interest rate market volatility in fiscal 2010 and new hedging instruments that reduced value-at-risk. The \$5 million decrease in commodity value-at-risk during the second quarter of fiscal 2010 was due to lower volatility in commodity markets. For additional information, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

**Item 4. Controls and Procedures.**

We, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of November 29, 2009, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our



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management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our fiscal quarter ended November 29, 2009, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

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

The following table sets forth information with respect to shares of our common stock that we purchased during the fiscal quarter ended November 29, 2009:

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of a Publicly Announced Program (b)</b>	<b>Maximum Number of Shares that may yet be Purchased Under the Program (b)</b>
September 1, 2009- October 4, 2009	22,741	\$61.45	22,741	18,290,585
October 5, 2009- November 1, 2009	1,942	64.35	1,942	18,288,643
November 2, 2009- November 29, 2009				18,288,643
<b>Total</b>	<b>24,683</b>	<b>\$61.67</b>	<b>24,683</b>	<b>18,288,643</b>

(a) The total number of shares purchased includes 24,683 shares purchased from the ESOP fund of our 401(k) savings plan. No shares were purchased in the open market.

(b) On December 11, 2006, our Board of Directors

approved and we announced an authorization for the repurchase of up to 75,000,000 shares of our common stock. Purchases can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The Board did not specify an expiration date for the authorization.

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## Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Annual Meeting of Stockholders was held on September 21, 2009.

(b) All 14 directors nominated were elected at the Annual Meeting.

(c) For the election of directors, the results were as follows:

Bradbury H. Anderson	For	270,034,838
	Against	10,553,421
	Abstain	1,127,126
R. Kerry Clark	For	276,658,559
	Against	3,866,080
	Abstain	1,190,746
Paul Danos	For	257,904,866
	Against	22,696,875
	Abstain	1,113,644
William T. Esrey	For	274,665,414
	Against	5,890,075
	Abstain	1,159,896
Raymond V. Gilmartin	For	253,540,412
	Against	27,037,387
	Abstain	1,137,586
Judith Richards Hope	For	275,462,802
	Against	5,229,884
	Abstain	1,022,699
Heidi G. Miller	For	256,029,503
	Against	24,635,550
	Abstain	1,050,332
Hilda Ochoa-Brillembourg	For	274,766,407
	Against	5,841,448
	Abstain	1,107,530
Steve Odland	For	271,764,671
	Against	8,833,576
	Abstain	1,117,138
Kendall J. Powell	For	274,569,715
	Against	6,059,770
	Abstain	1,085,900
Lois E. Quam	For	276,558,144

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Against	4,110,179
Abstain	1,047,062

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Michael D. Rose	For	274,247,073
	Against	6,244,843
	Abstain	1,223,469
Robert L. Ryan	For	278,601,508
	Against	2,062,122
	Abstain	1,051,755
Dorothy A. Terrell	For	275,735,530
	Against	4,929,629
	Abstain	1,050,226

The 2009 Stock Compensation Plan was approved:

For:	181,399,591
Against:	59,739,606
Abstain:	1,549,046
Broker	
Non-Votes:	39,027,142

The appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2010 was ratified:

For:	274,837,569
Against:	6,200,939
Abstain:	676,877

The non-binding stockholder proposal for an advisory vote on executive compensation was approved:

For:	117,563,676
Against:	111,850,958
Abstain:	13,273,609
Broker Non-Votes:	39,027,142

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Item 6. Exhibits.

Exhibit 10.1	General Mills, Inc. 2009 Stock Compensation Plan
Exhibit 10.2*	Eleventh Amendment to the Yoplait Manufacturing and Distribution License Agreement, dated September 21, 2009, between SODIMA and the Registrant
Exhibit 12.1	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

\* Confidential information has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the SEC pursuant to Rule 24b-2 of the Securities Exchange Act of 1934

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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.

GENERAL MILLS, INC.

(Registrant)

Date December 18, 2009

/s/ Roderick A. Palmore  
Roderick A. Palmore  
Executive Vice President, General Counsel  
and Secretary

Date December 18, 2009

/s/ Richard O. Lund  
Richard O. Lund  
Vice President, Controller (Principal  
Accounting Officer)

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**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
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