

GENERAL MILLS INC
Form 10-Q
December 17, 2010

Table of Contents

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

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED November 28, 2010
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

Number One General Mills Boulevard
Minneapolis, Minnesota
(Address of principal executive offices)

55426
(Zip Code)

(763) 764-7600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Number of shares of Common Stock outstanding as of December 10, 2010: 635,811,716 (excluding 118,801,612 shares held in the treasury).

General Mills, Inc.
Table of Contents

	Page
<u>PART I Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Earnings for the quarterly and six-month periods ended November 28, 2010, and November 29, 2009</u>	3
<u>Consolidated Balance Sheets as of November 28, 2010, and May 30, 2010</u>	4
<u>Consolidated Statements of Total Equity and Comprehensive Income for the six-month period ended November 28, 2010, and the fiscal year ended May 30, 2010</u>	5
<u>Consolidated Statements of Cash Flows for the six-month periods ended November 28, 2010, and November 29, 2009</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	35
<u>PART II Other Information</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 6. Exhibits</u>	37
<u>Signatures</u>	38
<u>EX-10.1</u>	
<u>EX-10.4</u>	
<u>EX-12.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings
GENERAL MILLS, INC. AND SUBSIDIARIES
(Unaudited) (In Millions, Except per Share Data)

	Quarter Ended		Six-Month Period Ended	
	Nov. 28, 2010	Nov. 29, 2009	Nov. 28, 2010	Nov. 29, 2009
Net sales	\$ 4,066.6	\$ 4,034.7	\$ 7,599.7	\$ 7,517.1
Cost of sales	2,432.6	2,306.4	4,441.4	4,348.0
Selling, general, and administrative expenses	810.1	824.7	1,573.0	1,573.4
Restructuring, impairment, and other exit costs	1.0	24.9	2.0	24.1
Operating profit	822.9	878.7	1,583.3	1,571.6
Interest, net	81.6	88.5	171.9	180.4
Earnings before income taxes and after-tax earnings from joint ventures	741.3	790.2	1,411.4	1,391.2
Income taxes	160.7	261.6	383.7	464.8
After-tax earnings from joint ventures	34.7	38.2	61.2	62.4
Net earnings, including earnings attributable to noncontrolling interests	615.3	566.8	1,088.9	988.8
Net earnings attributable to noncontrolling interests	1.4	1.3	2.9	2.7
Net earnings attributable to General Mills	\$ 613.9	\$ 565.5	\$ 1,086.0	\$ 986.1
Earnings per share - basic	\$ 0.96	\$ 0.86	\$ 1.68	\$ 1.50
Earnings per share - diluted	\$ 0.92	\$ 0.83	\$ 1.63	\$ 1.46
Dividends per share	\$ 0.28	\$ 0.23	\$ 0.56	\$ 0.47

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Balance Sheets
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except Par Value)

	Nov. 28, 2010 (Unaudited)	May 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 566.3	\$ 673.2
Receivables	1,299.1	1,041.6
Inventories	1,706.0	1,344.0
Deferred income taxes	28.5	42.7
Prepaid expenses and other current assets	416.7	378.5
Total current assets	4,016.6	3,480.0
Land, buildings, and equipment	3,146.1	3,127.7
Goodwill	6,634.7	6,592.8
Other intangible assets	3,740.5	3,715.0
Other assets	840.6	763.4
Total assets	\$ 18,378.5	\$ 17,678.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 826.7	\$ 849.5
Current portion of long-term debt	11.7	107.3
Notes payable	1,169.9	1,050.1
Other current liabilities	1,725.3	1,762.2
Total current liabilities	3,733.6	3,769.1
Long-term debt	5,864.1	5,268.5
Deferred income taxes	965.2	874.6
Other liabilities	1,930.8	2,118.7
Total liabilities	12,493.7	12,030.9
Stockholders' equity:		
Common stock, 754.6 shares issued, \$0.10 par value	75.5	75.5
Additional paid-in capital	1,294.9	1,307.1

Edgar Filing: GENERAL MILLS INC - Form 10-Q

Retained earnings	8,842.1	8,122.4
Common stock in treasury, at cost, shares of 114.1 and 98.1	(3,299.5)	(2,615.2)
Accumulated other comprehensive loss	(1,273.4)	(1,486.9)
Total stockholders' equity	5,639.6	5,402.9
Noncontrolling interests	245.2	245.1
Total equity	5,884.8	5,648.0
Total liabilities and equity	\$ 18,378.5	\$ 17,678.9

See accompanying notes to consolidated financial statements.

4

Table of Contents

Consolidated Statements of Total Equity and Comprehensive Income
GENERAL MILLS, INC. AND SUBSIDIARIES
(Unaudited) (In Millions, Except per Share Data)

	Issued		Treasury		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total	
	Par	Additional Paid-In Capital	Shares	Amount					
	Shares	Amount	Capital	Shares	Amount	Earnings	(Loss)	Interests	Total
Balance as of May 31, 2009	754.6	\$ 75.5	\$ 1,212.1	(98.6)	\$(2,473.1)	\$ 7,235.6	\$ (877.8)	\$ 244.2	\$ 5,416.5
Comprehensive income:									
Net earnings, including earnings attributable to noncontrolling interests						1,530.5		4.5	1,535.0
Other comprehensive income (loss)							(609.1)	0.2	(608.9)
Total comprehensive income									926.1
Cash dividends declared (\$0.96 per share)						(643.7)			(643.7)
Stock compensation plans (includes income tax benefits of \$114.0)			53.3	21.8	549.7				603.0
Shares purchased				(21.3)	(691.8)				(691.8)
Unearned compensation related to restricted stock unit awards			(65.6)						(65.6)
Distributions to noncontrolling interest holders								(3.8)	(3.8)
Earned compensation			107.3						107.3

Edgar Filing: GENERAL MILLS INC - Form 10-Q

Balance as of May 30, 2010	754.6	75.5	1,307.1	(98.1)	(2,615.2)	8,122.4	(1,486.9)	245.1	5,648.0
Comprehensive income:									
Net earnings, including earnings attributable to noncontrolling interests						1,086.0		2.9	1,088.9
Other comprehensive income							213.5	0.3	213.8
Total comprehensive income									1,302.7
Cash dividends declared (\$0.56 per share)						(366.3)			(366.3)
Stock compensation plans (includes income tax benefits of \$56.4)			7.8	10.2	279.3				287.1
Shares purchased				(26.2)	(963.6)				(963.6)
Unearned compensation related to restricted stock awards			(79.7)						(79.7)
Distributions to noncontrolling interest holders								(3.1)	(3.1)
Earned compensation			59.7						59.7
Balance as of Nov. 28, 2010	754.6	\$ 75.5	\$ 1,294.9	(114.1)	\$(3,299.5)	\$ 8,842.1	\$(1,273.4)	\$ 245.2	\$ 5,884.8

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows
GENERAL MILLS, INC. AND SUBSIDIARIES
(Unaudited) (In Millions)

	Six-Month Period Ended	
	Nov. 28, 2010	Nov. 29, 2009
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to noncontrolling interests	\$ 1,088.9	\$ 988.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	230.2	227.9
After-tax earnings from joint ventures	(61.2)	(62.4)
Stock-based compensation	59.7	60.4
Deferred income taxes	78.5	25.3
Tax benefit on exercised options	(56.4)	(46.6)
Distributions of earnings from joint ventures	24.3	31.2
Pension and other postretirement benefit plan contributions	(5.9)	(5.3)
Pension and other postretirement benefit plan expense (income)	36.7	(4.4)
Restructuring, impairment, and other exit costs (income)	(1.4)	18.9
Changes in current assets and liabilities	(736.4)	(269.1)
Other, net	(57.5)	22.4
Net cash provided by operating activities	599.5	987.1
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	(284.3)	(257.5)
Investments in affiliates, net	(1.9)	
Proceeds from disposal of land, buildings, and equipment	7.2	6.6
Other, net	12.6	35.8
Net cash used by investing activities	(266.4)	(215.1)
Cash Flows - Financing Activities		
Change in notes payable	117.8	(375.3)
Issuance of long-term debt	500.0	
Payment of long-term debt	(3.6)	(3.2)
Proceeds from common stock issued on exercised options	185.1	189.1
Tax benefit on exercised options	56.4	46.6
Purchases of common stock for treasury	(963.6)	(235.4)
Dividends paid	(366.3)	(312.9)
Other, net	(8.5)	
Net cash used by financing activities	(482.7)	(691.1)

Edgar Filing: GENERAL MILLS INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	42.7	27.7
Increase (decrease) in cash and cash equivalents	(106.9)	108.6
Cash and cash equivalents - beginning of year	673.2	749.8
Cash and cash equivalents - end of period	\$ 566.3	\$ 858.4
Cash Flow from Changes in Current Assets and Liabilities:		
Receivables	\$ (235.3)	\$ (241.6)
Inventories	(348.0)	(270.2)
Prepaid expenses and other current assets	(33.2)	19.8
Accounts payable	16.8	(33.2)
Other current liabilities	(136.7)	256.1
Changes in current assets and liabilities	\$ (736.4)	\$ (269.1)

See accompanying notes to consolidated financial statements.

Table of Contents

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

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the quarterly and six-month periods ended November 28, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending May 29, 2011.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 30, 2010. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K, except as discussed in Notes 2, 17, and 18 to these Consolidated Financial Statements.

(2) Basis of Presentation and Reclassification

At the beginning of fiscal 2011, we revised the classification of certain revenues and expenses to better align our income statement line items with how we manage our business. We revised the classification of amounts previously reported in our Consolidated Statements of Earnings to conform to the current year presentation. These revised classifications had no effect on previously reported net earnings attributable to General Mills or earnings per share. The changes include:

Revising the classification of certain customer logistics allowances as a reduction of net sales (previously recorded as cost of sales). The impact of this change was a decrease in net sales of \$43.5 million for the quarter ended and \$79.9 million for the six-month period ended November 29, 2009 with a corresponding decrease to cost of sales.

Revising the classification of certain promotion-related costs, customer allowances, and supply chain costs as cost of sales or selling, general, and administrative (SG&A) expenses (previously recorded as a reduction of net sales or SG&A expenses). The impact of these changes was a net increase to cost of sales of \$17.8 million for the quarter ended and \$35.7 million for the six-month period ended November 29, 2009 with a corresponding decrease to SG&A expenses.

Shifting allocation of certain SG&A expenses, primarily stock-based compensation, between segment operating profit and unallocated corporate items. The impact of this change was a decrease to segment operating profit of \$3.5 million for the quarter ended and \$8.7 million for the six-month period ended November 29, 2009 with a corresponding decrease in unallocated corporate items.

Shifting sales responsibility for a customer from our Bakeries and Foodservice segment to our U.S. Retail segment. For the quarter ended November 29, 2009, net sales of \$2.5 million and segment operating profit of \$1.1 million previously recorded in our Bakeries and Foodservice segment have now been reported in the U.S. Retail segment. For the six-month period ended November 29, 2009, net sales of \$5.2 million and segment operating profit of \$2.2 million previously recorded in our Bakeries and Foodservice segment have now been reported in the U.S. Retail segment.

Table of Contents

In May 2010, our Board of Directors approved a two-for-one stock split to be effected in the form of a 100 percent stock dividend to stockholders of record on May 28, 2010. The Company's stockholders received one additional share of common stock for each share of common stock in their possession on that date. The additional shares were distributed on June 8, 2010. This did not change the proportionate interest that a stockholder maintained in the Company. All shares and per share amounts have been adjusted for the two-for-one stock split throughout this report.

(3) Acquisitions and Divestitures

During the second quarter of fiscal 2011 we reached a definitive agreement to purchase the Mountain High yogurt business for \$85.0 million in cash subject to a purchase price adjustment related to inventory levels. We expect the transaction to be completed in the third quarter of fiscal 2011.

During the second quarter of fiscal 2011 we reached a definitive agreement to sell a foodservice frozen baked goods product line in our International segment for \$24.6 million in cash subject to a purchase price adjustment related to inventory levels. We expect the transaction to be completed and to record an after-tax gain of approximately \$13 million during the third quarter of fiscal 2011. As of November 28, 2010, \$4.4 million of land, buildings and equipment associated with this product line were considered held-for-sale.

(4) Restructuring, Impairment, and Other Exit Costs

Restructuring, impairment, and other exit costs (income) were as follows:

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 28, 2010	Nov. 29, 2009	Nov. 28, 2010	Nov. 29, 2009
Discontinuation of kids refrigerated yogurt beverage and microwave soup product lines	\$ 0.9	\$ 24.1	\$ 1.8	\$ 24.1
Sale of Contagem, Brazil bread and pasta plant		0.2		(0.8)
Charges associated with restructuring actions previously announced	0.1	0.6	0.2	0.8
Total	\$ 1.0	\$ 24.9	\$ 2.0	\$ 24.1

In the second quarter of fiscal 2011, we did not undertake any new restructuring actions. During the second quarter of fiscal 2010, we decided to exit our kids refrigerated yogurt beverage product line at our Murfreesboro, Tennessee plant and our microwave soup product line at our Vineland, New Jersey plant to rationalize capacity for more profitable items. Our decisions to exit these U.S. Retail segment products resulted in a \$24.1 million non-cash charge against the related long-lived assets. No employees were affected by these 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.

(5) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill during fiscal 2011 were as follows:

In Millions	U.S. Retail	International	Bakeries and	Joint	Total
			Foodservice	Ventures	
Balance as of May 30, 2010	\$ 5,098.3	\$ 122.0	\$ 923.0	\$ 449.5	\$ 6,592.8
Other activity, primarily foreign currency translation		6.6		35.3	41.9

Balance as of Nov. 28, 2010