GENERAL MILLS INC
Form 10-Q
September 22, 2010

Table of Contents

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

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED August 29, 2010

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO _______

Commission file number: 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 x No o

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 x No o

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

Large accelerated filer x Accelerated filer o

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

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

Number of shares of Common Stock outstanding as of September 13, 2010: 640,299,621 (excluding 114,313,707 shares held in the treasury).

General Mills, Inc.
Table of Contents

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	
	Aug. 29, 2010	**Aug. 30, 2009**
Net sales	**$ 3,533.1**	$ 3,482.4
Cost of sales	**2,008.8**	2,041.6
Selling, general, and administrative expenses	**762.9**	748.7
Restructuring, impairment, and other exit costs (income)	**1.0**	(0.8)
Operating profit	**760.4**	692.9
Interest, net	**90.3**	91.9
Earnings before income taxes and after-tax earnings from joint ventures	**670.1**	601.0
Income taxes	**223.0**	203.2
After-tax earnings from joint ventures	**26.5**	24.2
Net earnings, including earnings attributable to noncontrolling interests	**473.6**	422.0
Net earnings attributable to noncontrolling interests	**1.5**	1.4
Net earnings attributable to General Mills	**$ 472.1**	$ 420.6
Earnings per share - basic	**$ 0.73**	$ 0.64
Earnings per share - diluted	**$ 0.70**	$ 0.62
Dividends per share	**$ 0.28**	$ 0.24

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Aug. 29, 2010 (Unaudited)	May 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 697.0**	$ 673.2
Receivables	**1,173.1**	1,041.6
Inventories	**1,665.2**	1,344.0
Deferred income taxes	**35.6**	42.7
Prepaid expenses and other current assets	**382.9**	378.5
Total current assets	**3,953.8**	3,480.0
Land, buildings, and equipment	**3,111.7**	3,127.7
Goodwill	**6,613.5**	6,592.8
Other intangible assets	**3,727.7**	3,715.0
Other assets	**803.8**	763.4
Total assets	**$ 18,210.5**	$ 17,678.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 888.0**	$ 849.5
Current portion of long-term debt	**107.3**	107.3
Notes payable	**1,349.8**	1,050.1
Other current liabilities	**1,746.4**	1,762.2
Total current liabilities	**4,091.5**	3,769.1
Long-term debt	**5,771.6**	5,268.5
Deferred income taxes	**885.1**	874.6
Other liabilities	**2,090.9**	2,118.7
Total liabilities	**12,839.1**	12,030.9
Stockholders equity:		
Common stock, 754.6 shares issued, $0.10 par value	**75.5**	75.5
Additional paid-in capital	**1,282.5**	1,307.1

Retained earnings	**8,410.4**	8,122.4
Common stock in treasury, at cost, shares of 113.8 and 98.1	**(3,252.7)**	(2,615.2)
Accumulated other comprehensive loss	**(1,390.9)**	(1,486.9)
Total stockholders equity	**5,124.8**	5,402.9
Noncontrolling interests	**246.6**	245.1
Total equity	**5,371.4**	5,648.0
Total liabilities and equity	**$ 18,210.5**	$ 17,678.9

See accompanying notes to consolidated financial statements.

Table of Contents

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

	$.10 Par Value Common Stock (One Billion Shares Authorized) Issued			Treasury					
	Shares	Par Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling 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

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						472.1		1.5	473.6
Other comprehensive income							96.0	0.7	96.7
Total comprehensive income									570.3
Cash dividends declared ($0.28 per share)						(184.1)			(184.1)
Stock compensation plans (includes income tax benefits of $35.0)			14.9	5.7	150.9				165.8
Shares purchased				(21.4)	(788.4)				(788.4)
Unearned compensation related to restricted stock awards			(77.4)						(77.4)
Distributions to noncontrolling interest holders								(0.7)	(0.7)
Earned compensation			37.9						37.9
Balance as of Aug. 29, 2010	754.6	$ 75.5	$ 1,282.5	(113.8)	$ (3,252.7)	$ 8,410.4	$ (1,390.9)	$ 246.6	$ 5,371.4

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Quarter Ended Aug. 29, 2010	Quarter Ended Aug. 30, 2009
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to noncontrolling interests	**$ 473.6**	$ 422.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**111.3**	111.1
After-tax earnings from joint ventures	**(26.5)**	(24.2)
Stock-based compensation	**37.9**	37.5
Deferred income taxes	**22.4**	12.5
Tax benefit on exercised options	**(35.0)**	(14.7)
Distributions of earnings from joint ventures	**21.5**	16.8
Pension and other postretirement benefit plan contributions	**(2.4)**	(2.2)
Pension and other postretirement benefit plan expense (income)	**18.3**	(1.8)
Restructuring, impairment, and other exit income	**(1.0)**	(0.7)
Changes in current assets and liabilities	**(406.1)**	(298.8)
Other, net	**(36.4)**	17.6
Net cash provided by operating activities	**177.6**	275.1
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	**(132.6)**	(126.3)
Investments in affiliates, net	**(1.9)**	0.8
Proceeds from disposal of land, buildings, and equipment	**1.8**	5.7
Other, net	**12.5**	2.7
Net cash used by investing activities	**(120.2)**	(117.1)
Cash Flows - Financing Activities		
Change in notes payable	**299.0**	101.4
Issuance of long-term debt	**500.0**	
Payment of long-term debt	**(1.8)**	(2.1)
Proceeds from common stock issued on exercised options	**88.1**	75.4
Tax benefit on exercised options	**35.0**	14.7
Purchases of common stock for treasury	**(788.4)**	(233.9)
Dividends paid	**(184.1)**	(156.2)
Other, net	**(5.1)**	
Net cash used by financing activities	**(57.3)**	(200.7)

Effect of exchange rate changes on cash and cash equivalents		**23.7**		4.5
Increase (decrease) in cash and cash equivalents		**23.8**		(38.2)
Cash and cash equivalents - beginning of year		**673.2**		749.8
Cash and cash equivalents - end of period	**$**	**697.0**	$	711.6
Cash Flow from Changes in Current Assets and Liabilities:				
Receivables	**$**	**(121.1)**	$	(181.0)
Inventories		**(316.0)**		(297.4)
Prepaid expenses and other current assets		**(6.0)**		94.5
Accounts payable		**76.1**		44.1
Other current liabilities		**(39.1)**		41.0
Changes in current assets and liabilities	**$**	**(406.1)**	$	(298.8)

See accompanying notes to consolidated financial statements.

Table of Contents

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

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, 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 quarter ended August 29, 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, 15, and 16 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 $36.4 million and a corresponding decrease to cost of sales in the quarter ended August 30, 2009.

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 $17.9 million and a corresponding decrease to SG&A expenses in the quarter ended August 30, 2009.

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 $5.2 million and a corresponding decrease in unallocated corporate items in the quarter ended August 30, 2009.

Shifting sales responsibility for a customer from our Bakeries and Foodservice segment to our U.S. Retail segment. For the quarter ended August 30, 2009, net sales of $2.7 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.

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.

Table of Contents

(3) Restructuring, Impairment, and Other Exit Costs

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

In Millions	Quarter Ended Aug. 29, 2010	Aug. 30, 2009
Sale of Contagem, Brazil bread and pasta plant		(1.0)
Charges associated with restructuring actions previously announced	**1.0**	0.2
Total	**$ 1.0**	$ (0.8)

In the first quarter of fiscal 2011, we did not undertake any new restructuring actions. During the first quarter of fiscal 2010, we recorded a net gain of $1.0 million related to the closure and sale of our Contagem, Brazil bread and pasta plant.

(4) 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 Foodservice	Joint Ventures	Total
Balance as of May 30, 2010	$ 5,098.3	$ 122.0	$ 923.0	$ 449.5	$ 6,592.8
Other activity, primarily foreign currency translation		2.8		17.9	20.7
Balance as of Aug. 29, 2010	$ 5,098.3	$ 124.8	$ 923.0	$ 467.4	$ 6,613.5

The changes in the carrying amount of other intangible assets during fiscal 2011 were as follows:

In Millions	U.S. Retail	International	Joint Ventures	Total
Balance as of May 30, 2010	$ 3,206.6	$ 445.3	$ 63.1	$ 3,715.0
Other activity, primarily foreign currency translation	(0.9)	13.1	0.5	12.7
Balance as of Aug. 29, 2010	$ 3,205.7	$ 458.4	$ 63.6	$ 3,727.7

(5) Inventories

The components of inventories were as follows:

In Millions	Aug. 29, 2010	May 30, 2010
Raw materials and packaging	**$ 288.2**	$ 247.5

Finished goods	**1,360.0**	1,131.4
Grain	**158.6**	107.4
Excess of FIFO or weighted-average cost over LIFO cost	**(141.6)**	(142.3)
Total	**$ 1,665.2**	$ 1,344.0

8

(6) 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 August 29, 2010, and May 30, 2010, a comparison of cost and market values of our marketable debt and equity securities is as follows:

	Cost		**Market Value**		**Gross Gains**		**Gross Losses**	
In Millions	**Aug. 29, 2010**	**May 30, 2010**	**Aug. 29, 2010**	**May 30, 2010**	**Aug. 29, 2010**	**May 30, 2010**	**Aug. 29, 2010**	**May 30, 2010**
Available for sale:								
Debt securities	**$ 11.6**	$ 11.8	**$ 11.8**	$ 11.9	**$ 0.2**	$ 0.1	**$**	$
Equity securities	**6.5**	6.1	**14.0**	15.5	**7.6**	9.4	**0.1**	
Total	**$ 18.1**	$ 17.9	**$ 25.8**	$ 27.4	**$ 7.8**	$ 9.5	**$ 0.1**	$

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 (loss) (AOCI) within stockholders equity. Scheduled maturities of our marketable securities are as follows:

	Available for Sale	
In Millions	**Cost**	**Market Value**
Under 1 year (current)	$ 5.2	$ 5.2
From 1 to 3 years	0.4	0.4
From 4 to 7 years	4.9	5.0
Over 7 years	1.1	1.2
Equity securities	6.5	14.0
Total	$ 18.1	$ 25.8

Marketable securities with a market value of $2.3 million as of August 29, 2010, were pledged as collateral for certain derivative contracts.

The fair values and carrying amounts of long-term debt, including the current portion, were $6,646.5 million and $5,878.9 million, respectively, as of August 29, 2010. 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.

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.

Table of Contents

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 quarters ended August 29, 2010, and August 30, 2009, included:

	Quarter Ended	
In Millions	**Aug. 29, 2010**	**Aug. 30, 2009**
Net gain (loss) on mark-to-market valuation of commodity positions	**$ 40.1**	$ (28.7)
Net loss on commodity positions reclassified from unallocated corporate items to segment operating profit	**7.2**	26.5
Net mark-to-market revaluation of certain grain inventories	**24.6**	(12.6)
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	**$ 71.9**	$ (14.8)

As of August 29, 2010, the net notional value of commodity derivatives was $107.9 million, primarily 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 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 August 29, 2010.

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 less than $1 million as of August 29, 2010.

Table of Contents

During the fourth quarter of fiscal 2010, in advance of a planned debt financing, we entered into $500 million of treasury lock derivatives with an average fixed rate of 4.3 percent. All of these treasury locks were cash settled for $17.1 million coincident with the issuance of our $500 million 30-year fixed-rate notes, which settled during the first quarter of fiscal 2011. As of August 29, 2010, a $16.7 million pre-tax loss remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

During the second quarter of fiscal 2010 we entered into $700.0 million of interest rate swaps to convert $700.0 million of 5.65 percent fixed-rate notes, to floating rates. In May 2010, we repurchased $179.2 million of our 5.65 percent notes, and as a result, we received $2.7 million to settle a portion of these swaps that related to the repurchased debt.

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 August 29, 2010, 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 August 29, 2010, a $14.4 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.

In Millions	**Aug. 29, 2010**	**May 30, 2010**
Pay-floating swaps - notional amount	**$ 2,155.6**	$ 2,155.6
Average receive rate	**4.8%**	4.8%
Average pay rate	**0.3%**	0.3%
Pay-fixed swaps - notional amount	**$ 1,600.0**	$ 1,600.0
Average receive rate	**0.3%**	0.3%
Average pay rate	**7.3%**	7.3%

The swap contracts mature at various dates from fiscal 2011 to 2013 as follows:

In Millions	**Pay Floating**	**Pay Fixed**
2011	$ 17.6	$
2012	1,603.4	850.0
2013	534.6	750.0
Total	$ 2,155.6	$ 1,600.0

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, 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 and nonfunctional currency intercompany loans back to U.S. dollars or the functional currency; 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.

Table of Contents

The amount of hedge ineffectiveness was less than $1 million as of August 29, 2010.
We also have many net investments in foreign subsidiaries that are denominated in euros. We hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of August 29, 2010, 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

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.

The fair values of our assets, liabilities, and derivative positions recorded at fair value as of August 29, 2010, were as follows:

	Fair Values of Assets				Fair Values of Liabilities			
In Millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives designated as hedging instruments:								
Interest rate contracts (a) (b)	$	$ 11.7	$	$ 11.7	$	$	$	$
Foreign exchange contracts (c) (d)		6.4		6.4		(13.3)		(13.3)
Total		18.1		18.1		(13.3)		(13.3)
Derivatives not designated as hedging instruments:								
Interest rate contracts (a) (b)		117.1		117.1		(154.3)		(154.3)
Foreign exchange contracts (c)		6.0		6.0		(1.1)		(1.1)
Commodity contracts (c) (e)	8.2	7.7		15.9		(3.7)		(3.7)
Total	8.2	130.8		139.0		(159.1)		(159.1)
Other assets and liabilities reported at fair value:								
Marketable investments (a) (f)	14.0	11.8		25.8				
Grain contracts (c) (e)		58.2		58.2		(24.5)		(24.5)

Total	14.0	70.0		84.0		(24.5)		(24.5)
Total assets, liabilities, and derivative positions recorded at fair value	$ 22.2	$ 218.9	$	$ 241.1	$	$ (196.9)	$	$ (196.9)

(a) These contracts and investments are recorded as other assets or as other liabilities, as appropriate, based on whether in a gain or loss position. Certain marketable investments are recorded as cash and cash equivalents.

(b) Based on LIBOR and swap rates.

(c) 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.

(d) Based on observable market transactions of spot currency rates and forward currency prices.

(e) Based on prices of futures exchanges and recently reported transactions in the marketplace.

(f) Based on prices of common stock and bond matrix pricing.

Table of Contents

We did not significantly change our valuation techniques from prior periods.
Information related to our cash flow hedges, net investment hedges, and other derivatives not designated as hedging instruments for the quarters ended August 29, 2010, and August 30, 2009, follows:

In Millions	Interest Rate Contracts Quarter Ended Aug. 29, 2010	Aug. 30, 2009	Foreign Exchange Contracts Quarter Ended Aug. 29, 2010	Aug. 30, 2009	Equity Contracts Quarter Ended Aug. 29, 2010	Aug. 30, 2009	Commodity Contracts Quarter Ended Aug. 29, 2010	Aug. 30, 2009	Total Quarter Ended Aug. 29, 2010	Aug. 30, 2009
Derivatives in Cash Flow Hedging Relationships:										
Amount of gain (loss) recognized in other comprehensive income (OCI) (a)	$	$ 0.4	$ (7.4)	$ (2.0)	$	$	$	$	$ (7.4)	$ (1.6)
Amount of gain (loss) reclassified from AOCI into earnings (a) (b)	(3.3)	(3.8)	(5.6)	3.3					(8.9)	(0.5)
Amount of (gain) loss recognized in earnings (c) (d)			0.3	(0.2)					0.3	(0.2)
Derivatives Not Designated as Hedging Instruments:										
Amount of gain (loss) recognized in earnings (e)	(4.2)	2.5	(3.6)			0.1		(28.7)	(7.8)	(26.1)

(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 SG&A expenses for foreign exchange contracts.

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

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

(e) 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 and foreign exchange contracts.

Amounts Recorded in Accumulated Other Comprehensive Loss. Unrealized losses from interest rate cash flow hedges recorded in AOCI as of August 29, 2010, totaled $23.0 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. Unrealized losses from foreign currency cash flow hedges recorded in AOCI as of August 29, 2010, were $7.0 million after-tax. The net amount of pre-tax gains and losses in AOCI as of August 29, 2010, that we expect to be reclassified into net earnings within the next 12 months is $19.8 million of expense.

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 August 29, 2010, was $5.7 million. We would be required to post this amount of collateral to the counterparties if the contingent features were triggered.

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. We also enter into commodity futures transactions through various regulated exchanges.

Table of Contents

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 $33.9 million against which we hold $2.0 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.

(7) Debt

The components of notes payable were as follows:

In Millions	**Aug. 29, 2010**	**May 30, 2010**
U.S. commercial paper	**$ 1,239.4**	$ 973.0
Euro commercial paper	**10.3**	
Financial institutions	**100.1**	77.1
Total	**$ 1,349.8**	$ 1,050.1

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States and Europe. Our commercial paper borrowings are supported by $2.9 billion of fee-paid committed credit lines, consisting of a $1.8 billion facility expiring in October 2012 and a $1.1 billion facility expiring in October 2010. As of August 29, 2010, we did not have any outstanding borrowings under these credit lines. We also have $278.9 million in uncommitted credit lines that support our foreign operations.

In June 2010, we issued $500.0 million aggregate principal amount of 5.4 percent notes due 2040. 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.

In May 2010, we paid $437.0 million to repurchase in a cash tender offer $400.0 million of our previously issued debt. We repurchased $220.8 million of our 6.0 percent notes due 2012 and $179.2 million of our 5.65 percent notes due 2012. We issued commercial paper to fund the repurchase.

Our credit facilities and certain of our long-term debt and noncontrolling interests agreements contain restrictive covenants. As of August 29, 2010, we were in compliance with all of these covenants.

Table of Contents

(8) Stockholders Equity

The following table provides details of total comprehensive income:

In Millions	Quarter Ended Aug. 29, 2010 Pretax	Tax	Net	Quarter Ended Aug. 30, 2009 Pretax	Tax	Net
Net earnings attributable to General Mills			**$ 472.1**			$ 420.6
Net earnings attributable to noncontrolling interests			**1.5**			1.4
Net earnings, including earnings attributable to noncontrolling interests			**$ 473.6**			$ 422.0
Other comprehensive income (loss):						
Foreign currency translation	**$ 82.1**	**$**	**$ 82.1**	$ 38.6	$	$ 38.6
Other fair value changes:						
Securities	**(2.0)**	**0.7**	**(1.3)**	0.3	(0.1)	0.2
Hedge derivatives	**(7.4)**	**0.1**	**(7.3)**	(1.6)	(0.2)	(1.8)
Reclassification to earnings:						
Hedge derivatives	**8.9**	**(3.4)**	**5.5**	0.5	(0.2)	0.3
Amortization of losses and prior service costs	**27.3**	**(10.3)**	**17.0**	4.6	(1.8)	2.8
Other comprehensive income in accumulated other comprehensive loss	**108.9**	**(12.9)**	**96.0**	42.4	(2.3)	40.1
Other comprehensive income attributable to noncontrolling interests	**0.7**		**0.7**	0.2		0.2
Other comprehensive income	**$ 109.6**	**$ (12.9)**	**$ 96.7**	$ 42.6	$ (2.3)	$ 40.3
Total comprehensive income			**$ 570.3**			$ 462.3

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

In Millions	Aug. 29, 2010	May 30, 2010
Foreign currency translation adjustments	**$ 277.0**	$ 194.9
Unrealized gain (loss) from:		
Securities	**4.3**	5.6
Hedge derivatives	**(30.7)**	(28.9)
Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	**(1,609.3)**	(1,611.0)
Prior service costs	**(32.2)**	(47.5)
Accumulated other comprehensive loss	**$ (1,390.9)**	$ (1,486.9)

(9) Stock Plans

All shares and per share amounts have been adjusted for the two-for-one stock split on May 28, 2010.

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 78 to 81 of our Annual Report on Form 10-K for the fiscal year ended May 30, 2010.

Table of Contents

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

	Quarter Ended	
In Millions	Aug. 29, 2010	Aug. 30, 2009
Compensation expense related to stock-based payments	**$ 56.6**	$ 59.0

As of August 29, 2010, unrecognized compensation expense related to non-vested stock options and restricted stock units was $276.1 million. This expense will be recognized over 26 months, on average.
Net cash proceeds from the exercise of stock options less shares used for withholding taxes and the intrinsic value of options exercised were as follows:

	Quarter Ended	
In Millions	Aug. 29, 2010	Aug. 30, 2009
Net cash proceeds	**$ 88.3**	$ 75.4
Intrinsic value of options exercised	**$ 70.0**	$ 36.3

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. We also have considered, but did not use, implied volatility in our estimate because trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained on page 79 in our Annual Report on Form 10-K for the fiscal year ended May 30, 2010.
The estimated fair values of stock options granted and the assumptions used for the Black-Scholes option-pricing model were as follows:

	Quarter Ended	
	Aug. 29, 2010	Aug. 30, 2009
Estimated fair values of stock options granted	**$ 4.08**	$ $3.18
Assumptions:		
Risk-free interest rate	**3.0%**	3.7%
Expected term	**8.5 years**	8.5 years
Expected volatility	**18.5%**	18.9%
Dividend yield	**3.0%**	3.4%

Table of Contents

Information on stock option activity follows:

	Options (Thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Millions)
Balance as of May 30, 2010	81,104.6	$ 25.17		
Granted	5,073.8	37.40		
Exercised	(4,431.0)	21.04		
Forfeited or expired	(18.1)	28.14		
Outstanding as of Aug. 29, 2010	81,729.3	$ 26.15	4.85	$ 812.2
Exercisable as of Aug. 29, 2010	53,229.5	$ 23.57	3.13	$ 662.2

Information on restricted stock unit activity follows:

	Equity Classified		Liability Classified			
	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value	Cash-Settled Share-Based Units (Thousands)	Weighted-Average Grant-Date Fair Value
Non-vested as of May 30, 2010	10,209.8	$ 28.49	424.3	$ 28.64	3,703.7	$ 29.65
Granted	2,133.6	37.38	111.4	37.40	1,200.7	37.40
Vested	(2,596.4)	26.10	(71.5)	28.99	(76.9)	31.48
Forfeited or expired	(105.3)	31.25	(24.8)	28.10	(92.7)	30.32
Non-vested as of Aug. 29, 2010	9,641.7	$ 31.06	439.4	$ 30.83	4,734.8	$ 31.57

The total grant-date fair value of restricted stock unit awards that vested in the quarter ended August 29, 2010, was $72.3 million, and restricted stock units with a grant-date fair value of $12.4 million vested in the quarter ended August 30, 2009.

Table of Contents

(10) Earnings Per Share

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

In Millions, Except per Share Data	Quarter Ended Aug. 29, 2010	Aug. 30, 2009
Net earnings attributable to General Mills	**$ 472.1**	$ 420.6
Average number of common shares - basic EPS	**647.3**	653.0
Incremental share effect from: (a)		
Stock options	**17.8**	14.6
Restricted stock, restricted stock units, and other	**6.8**	5.2
Average number of common shares - diluted EPS	**671.9**	672.8
Earnings per share - basic	**$ 0.73**	$ 0.64
Earnings per share - diluted	**$ 0.70**	$ 0.62

(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:

In Millions	Quarter Ended Aug. 29, 2010	Aug. 30, 2009
Anti-dilutive stock options and restricted stock units	**5.1**	20.8

(11) Share Repurchases

On June 28, 2010, our Board of Directors approved an authorization for the repurchase of up to 100,000,000 shares of our common stock.

During the first quarter of fiscal 2011, we repurchased 21.4 million shares of common stock for an aggregate purchase price of $788.4 million. During the first quarter of fiscal 2010, we repurchased 8.6 million shares of common stock for an aggregate purchase price of $233.9 million.

(12) Interest, Net

The components of interest were as follows:

Expense (Income), in Millions	Quarter Ended Aug. 29, 2010	Aug. 30, 2009
Interest expense	**$ 93.8**	$ 95.3
Capitalized interest	**(2.1)**	(1.1)
Interest income	**(1.4)**	(2.3)

Interest, net	**$ 90.3**	$ 91.9

18

(13) Statements of Cash Flows
During the quarter ended August 29, 2010, we made net cash interest payments of $101.1 million, compared to $117.6 million in the same period last year. Also, in the quarter ended August 29, 2010, we made tax payments of $27.8 million, compared to $26.0 million in the same period last year.
(14) Retirement and Postemployment Benefits
Components of net pension, other postretirement, and postemployment expense (income) were as follows:

	Defined Benefit Pension Plans Quarter Ended		**Other Postretirement Benefit Plans Quarter Ended**		**Postemployment Benefit Plans Quarter Ended**	
In Millions	**Aug. 29, 2010**	**Aug. 30, 2009**	**Aug. 29, 2010**	**Aug. 30, 2009**	**Aug. 29, 2010**	**Aug. 30, 2009**
Service cost	**$ 25.4**	$ 17.7	**$ 4.6**	$ 3.2	**$ 2.0**	$ 1.8
Interest cost	**57.6**	57.6	**15.0**	15.4	**1.3**	1.4
Expected return on plan assets	**(102.2)**	(99.8)	**(8.3)**	(7.3)		
Amortization of losses	**20.4**	2.0	**3.6**	0.5	**0.5**	0.2
Amortization of prior service costs (credits)	**2.3**	1.7	**(0.1)**	(0.4)	**0.6**	0.6
Other adjustments					**2.0**	
Settlement or curtailment losses						2.5
Net expense (income)	**$ 3.5**	$ (20.8)	**$ 14.8**	$ 11.4	**$ 6.4**	$ 6.5

(15) 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 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 and fruit 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 our major product categories are cereals, snacks, yogurt, unbaked and fully baked frozen dough products, baking mixes, and flour. Many products we sell are branded to the consumer and nearly all are branded to our customers. We sell to distributors and operators in many customer channels including foodservice, convenience stores, vending, and supermarket bakeries. 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

Table of Contents

overhead expenses, variances to planned domestic employee benefits and incentives, 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, at the beginning of fiscal 2011 we revised certain SG&A expense classifications between segment operating profit and corporate items and shifted selling responsibility for a customer from our Bakeries and Foodservice segment to the U.S. Retail segment. All prior period amounts have been restated to conform to the current period presentation.

Our operating segment results were as follows:

	Quarter Ended	
In Millions	**Aug. 29, 2010**	**Aug. 30, 2009**
Net sales:		
U.S. Retail	**$ 2,446.6**	$ 2,399.6
International	**659.8**	656.9
Bakeries and Foodservice	**426.7**	425.9
Total	**$ 3,533.1**	$ 3,482.4
Operating profit:		
U.S. Retail	**$ 614.6**	$ 634.3
International	**62.0**	62.9
Bakeries and Foodservice	**72.5**	65.2
Total segment operating profit	**749.1**	762.4
Unallocated corporate items	**(12.3)**	70.3
Restructuring, impairment, and other exit costs (income)	**1.0**	(0.8)
Operating profit	**$ 760.4**	$ 692.9

(16) New Accounting Pronouncements

In the first quarter of fiscal 2011 we adopted new accounting guidance on 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 adoption of the guidance did not have any impact on our results of operations or financial condition.

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

INTRODUCTION

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended May 30, 2010, 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 pages 26-27 of this report.

CONSOLIDATED RESULTS OF OPERATIONS

First Quarter Results

For the first quarter of fiscal 2011, net sales grew 1 percent to $3,533 million and total segment operating profit of $749 million was 2 percent lower than the first quarter of fiscal 2010. Diluted earnings per share (EPS) was up 13 percent and diluted EPS excluding certain items affecting comparability was flat compared to the first quarter of fiscal 2010. (See pages 25-26 for a discussion of measures not defined by GAAP).

Net sales growth of 1 percent to $3,533 million for the first quarter of fiscal 2011 was the result of 2 percentage points of contributions from volume growth, partially offset by 1 percentage point from unfavorable foreign currency exchange.

Components of net sales growth

First Quarter of Fiscal 2011 vs. First Quarter of Fiscal 2010	**U.S. Retail**	**International**	**Bakeries and Foodservice**	**Combined Segments**
Contributions from volume growth (a)	1 pt	4 pts	3 pts	2 pts
Net price realization and mix	1 pt	Flat	-3 pts	Flat
Foreign currency exchange	NA	-4 pts	Flat	-1 pt
Net sales growth	2 pts	Flat	Flat	1 pt

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

Cost of sales decreased $33 million from the first quarter of fiscal 2010 to $2,009 million. In the first quarter of fiscal 2011, we recorded a $72 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 $15 million in the first quarter of fiscal 2010. This decrease was offset by a $41 million increase attributable to higher volume and $13 million of unfavorable mix and higher input costs.

Selling, general, and administrative (SG&A) expenses were up $14 million to $763 million in the first quarter of fiscal 2011 versus the same period in fiscal 2010. SG&A expenses as a percent of net sales in the first quarter of fiscal 2011 were flat compared with fiscal 2010. The increase in SG&A expenses was driven by an 8 percent increase in advertising and media expense.

Interest, net for the first quarter of fiscal 2011 totaled $90 million, a $2 million decrease from the same period of fiscal 2010. Average interest bearing instruments decreased $157 million leading to a $3 million decrease in net interest, while average interest rates increased 10 basis points generating a $1 million increase in net interest 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 first quarter of fiscal 2011 was 33.3 percent compared to 33.8 percent for the first quarter of fiscal 2010. The 0.5 percentage point decrease was primarily due to increased benefits from the domestic manufacturing deduction.

After-tax earnings from joint ventures increased to $26 million compared to $24 million in the same quarter last fiscal year. In the first quarter of fiscal 2011, net sales for Cereal Partners Worldwide (CPW) increased 1 percent due primarily to 2 percentage points of volume growth and 1 percentage point of net price realization and mix, partially offset by 2 points of unfavorable foreign exchange. Net sales for our Häagen-Dazs joint venture in Japan declined 1 percent, mainly due to a 5 percentage point decline from net price realization and mix, and a 4 percentage point decline in volume, offset by 8 percentage points of favorable foreign exchange.

Average diluted shares outstanding decreased by 1 million in the first quarter of fiscal 2011 from the same period a year ago due primarily to share repurchases, offset by the issuance of common stock due to stock option exercises.

Net earnings attributable to General Mills were $472 million in the first quarter of fiscal 2011, up 12 percent from $421 million last year. **Diluted EPS** was $0.70 in the first quarter of fiscal 2011, up 13 percent from $0.62 last year. These results include the effects from the mark-to-market valuation of certain commodity positions and grain inventories. Diluted EPS excluding this item affecting comparability, a non-GAAP measure used for management reporting and incentive compensation purposes, was $0.64 in the first quarter of fiscal 2011, equal to the first quarter of fiscal 2010 (see the Non-GAAP Measures section below for our use of this measure and our discussion of the items affecting comparability).

SEGMENT OPERATING RESULTS

U.S. Retail Segment Results

Net sales for our U.S. Retail operations grew 2 percent in the first quarter of fiscal 2011 to $2,447 million, with volume contributing 1 percentage point of growth and net price realization and mix also contributing 1 percentage point of growth.

U.S. Retail Net Sales Percentage Change by Division

	Quarter Ended Aug. 29, 2010
Big G	4 %
Meals	3
Pillsbury	(3)
Yoplait	4
Snacks	5
Baking Products	(6)
Small Planet Foods	15
Total	2 %

During the first quarter of fiscal 2011, net sales for Big G cereals grew 4 percent driven by *Multigrain Cheerios, Fiber One, Cinnamon Toast Crunch* and new product sales of *Chocolate Cheerios* and *Wheaties Fuel*. Meals division net sales increased 3 percent mainly from gains in *Green Giant* frozen vegetables, *Old El Paso* Mexican products, and *Wanchai Ferry* and *Macaroni Grill* frozen entrees. Pillsbury net sales declined 3 percent due to a decrease in *Pillsbury* refrigerated cookie dough, partially offset by gains on *Totino s* pizza and hot snacks, and introductory sales of *Sweet Moments* refrigerated ready-to-eat desserts. Net sales for Yoplait grew 4 percent, led by *Yoplait Light*, *Yoplait* Greek style yogurt, introductory sales of *Yoplait Splitz* layered yogurt, and *Yoplait* Original four-packs. Snacks net sales grew 5 percent, driven by introductory sales of new grain snack bars and several fruit snack varieties. Net sales for Baking Products declined 6 percent, reflecting unfavorable net price realization, partially offset by *Betty Crocker* cake and frostings, introductory sales of gluten-free *Bisquick* and Supreme cake mix varieties. Small Planet Food s net sales were up 15 percent, reflecting performance of *Cascadian Farm* cereals and granola bars, and *Lärabar* fruit and nut energy bars.

Table of Contents

Segment operating profit decreased 3 percent to $615 million in the first quarter of fiscal 2011 versus the same period a year ago driven by $54 million of unfavorable supply chain costs and a 6 percent increase in advertising and media expenses, partially offset by $18 million of favorable net price realization and mix and $14 million of volume growth.

International Segment Results

Net sales for our International segment of $660 million were flat in the first quarter of fiscal 2011 compared to fiscal 2010. Volume contributed 4 percentage points of growth, offset by 4 percentage points of unfavorable foreign currency exchange.

International Net Sales Percentage Change by Geographic Region

	Quarter Ended Aug. 29, 2010
Europe	(2) %
Canada	6
Asia/Pacific	11
Latin America	(19)
Total	Flat

For the first quarter of fiscal 2011, net sales in Europe declined 2 percent driven by unfavorable foreign exchange, partially offset by gains on *Häagen-Dazs* in France and Germany, *Old El Paso* in France and Spain, and *Nature Valley* in the United Kingdom. Net sales in Canada increased 6 percent due to volume increases in cereals, and favorable foreign currency exchange. In the Asia/Pacific region, net sales grew 11 percent due to growth from *Häagen-Dazs* shops and *Wanchai Ferry* products in China, and introductory sales of *Nature Valley* in Australia. Latin America net sales decreased 19 percent due to unfavorable foreign exchange, partially offset by gains on *La Salteña* in Argentina.

Segment operating profit declined 1 percent to $62 million in the first quarter of fiscal 2011, including a 17 percent increase in advertising and media expenses.

Bakeries and Foodservice Segment Results

Net sales for our Bakeries and Foodservice segment of $427 million were flat in the first quarter of fiscal 2011 compared to fiscal 2010. Volume contributed 3 percentage points of growth, including a 2 percentage point reduction from a divested product line. Net price realization and mix drove a 3 percentage point decrease, primarily from price declines indexed to wheat markets.

Bakeries and Foodservice Net Sales Percentage Change by Customer Segment

	Quarter Ended Aug. 29, 2010
Foodservice Distributors	1 %
Convenience Stores	15
Bakeries and National Restaurant Accounts	(3)
Total	Flat

Table of Contents

Segment operating profit for the first quarter of fiscal 2011 was $72 million, up from $65 million in the first quarter of fiscal 2010, primarily due to volume growth.

UNALLOCATED CORPORATE ITEMS

Unallocated corporate items totaled $12 million of income in the first quarter of fiscal 2011 compared to $70 million of expense in the same period in fiscal 2010. In the first quarter of fiscal 2011 we recorded a $72 million net increase in income related to mark-to-market valuation of certain commodity positions and grain inventories, compared to a $15 million net increase in expense in the first quarter of fiscal 2010.

LIQUIDITY

During the quarter ended August 29, 2010, our operations generated $178 million of cash compared to $275 million in the same period last year, mainly reflecting changes in current assets and liabilities, including a $100 million change in prepaid expenses and other current assets, primarily due to market fluctuations in grain contracts.

Cash used by investing activities during the first quarter of fiscal 2011, was $120 million, a $3 million increase over the same period in fiscal 2010. We invested $133 million in land, buildings, and equipment in the first quarter of fiscal 2011, an increase of $6 million over the prior year.

Cash used by financing activities decreased $143 million during the quarter ended August 29, 2010, over the same period a year ago. We issued $698 million more notes payable and long-term debt in the first quarter of fiscal 2011 than the first quarter fiscal 2010. We also used $554 million more cash to repurchase shares than the same period last year. In addition, we paid $184 million of dividends in the first quarter of fiscal 2011, $28 million more than the prior year.

CAPITAL RESOURCES

Our capital structure was as follows:

In Millions	Aug. 29, 2010	May 30, 2010
Notes payable	**$ 1,349.8**	$ 1,050.1
Current portion of long-term debt	**107.3**	107.3
Long-term debt	**5,771.6**	5,268.5
Total debt	**7,228.7**	6,425.9
Noncontrolling interests	**246.6**	245.1
Stockholders equity	**5,124.8**	5,402.9
Total capital	**$ 12,600.1**	$ 12,073.9

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States and Europe. Our commercial paper borrowings are supported by $2.9 billion of fee-paid committed credit lines, consisting of a $1.8 billion facility expiring in October 2012 and a $1.1 billion facility expiring in October 2010. As of August 29, 2010, we did not have any outstanding borrowings under these credit lines. We also have $278.9 million in uncommitted credit lines that support our foreign operations.

In June 2010, we issued $500.0 million aggregate principal amount of 5.4 percent notes due 2040. 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.

Table of Contents

In May 2010, we paid $437.0 million to repurchase in a cash tender offer $400.0 million of our previously issued debt. We repurchased $220.8 million of our 6.0 percent notes due 2012 and $179.2 million of our 5.65 percent notes due 2012. We issued commercial paper to fund the repurchase.

Our credit facilities and certain of our long-term debt and noncontrolling interests agreements contain restrictive covenants. As of August 29, 2010, we were in compliance with all of these covenants.

We have $107.3 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 quarter of fiscal 2011. During the first quarter of fiscal 2011, we provided a $20 million guarantee on behalf of Cereal Partners Worldwide to support capital expenditures.

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 30, 2010. The accounting policies used in preparing our interim fiscal 2011 Consolidated Financial Statements are the same as those described in our Form 10-K, except as discussed in Notes 2, 15 and 16 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 August 29, 2010, are the same as those described in our Annual Report on Form 10-K for the fiscal year ended May 30, 2010.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There have been no accounting pronouncements recently issued that will affect our Consolidated Financial Statements.

NON-GAAP MEASURES

We have included in this report measures of financial performance that are not defined by GAAP. Each of the measures is used in reporting to our executive management and as a component of the Board of Director s measurement of our performance for incentive compensation purposes. Management and the Board of Directors believe that these measures provide useful information to investors, and include these measures in other communications to investors.

For each of these non-GAAP financial measures, we are providing below a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure, an explanation of why our management or the Board of Directors believes the non-GAAP measure provides useful information to investors, and any additional purposes for which our management or Board of Directors uses the non-GAAP measure. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

Table of Contents

Total Segment Operating Profit

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 operating profit, the relevant GAAP measure, is included in Note 15 to the Consolidated Financial Statements in this report.

Diluted EPS Excluding Certain Items Affecting Comparability

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 earnings performance on a comparable year-over-year basis. The adjustments are either items resulting from infrequently occurring events or items that, in management s judgment, significantly affect the year-over-year assessment of operating results.

The reconciliation of diluted EPS excluding certain items affecting comparability to diluted EPS, the relevant GAAP measure, follows:

	Quarter Ended	
Per Share Data	**Aug. 29, 2010**	**Aug. 30, 2009**
Diluted earnings per share, as reported	$ 0.70	$ 0.62
Mark-to-market effects (a)	(0.06)	0.02
Diluted earnings per share, excluding certain items affecting comparability	$ 0.64	$ 0.64

(a) Net (gain) loss from mark-to-market valuation of certain commodity positions and grain inventories.

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.

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.

Table of Contents

Net price realization. The impact of list and promoted price changes, net of trade and other price promotion costs.
Noncontrolling interests. Interests of subsidiaries held by third parties.
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.
Working Capital. Current assets and current liabilities, all as of the last day of our reporting period.

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.

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

Table of Contents

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 9 through 14 of our Annual Report on Form 10-K for the fiscal year ended May 30, 2010, and in Item 1A of Part II of this report, 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 August 29, 2010, was $27 million and $5 million, respectively. The $1 million decrease in interest rate value-at-risk during the three-month period ended August 29, 2010, was due to decreased interest rate market volatility in fiscal 2011. The commodity value-at-risk was flat compared to May 30, 2010. For additional information, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 30, 2010.

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 August 29, 2010, 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 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 August 29, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 30, 2010 presents risk factors that may adversely affect our business, financial condition, and results of operations. Those risk factors are supplemented by the following risk factor:

An unfavorable resolution of the dispute concerning our *Yoplait* trademark license could adversely affect our business.

We market our *Yoplait* yogurt in the United States according to the terms of a Manufacturing and Distribution License Agreement (Yoplait License Agreement) with Sodima, a French dairy company. Over the past several months, Sodima has expressed to us its desire to renegotiate the Yoplait License Agreement, seeking more lucrative terms. On September 3, 2010, we received a letter from Sodima purporting to terminate the Yoplait License Agreement effective two years from now, on September 9, 2012. On September 6, 2010, we filed a petition for arbitration, as provided for by the dispute resolution provisions of the Yoplait License Agreement, to preserve and enforce our rights under the Yoplait License Agreement.

Table of Contents

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

On May 3, 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 set forth in this report have been adjusted for the two-for-one stock split.

The following table sets forth information with respect to shares of our common stock that we purchased during the fiscal quarter ended August 29, 2010:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (b)	Maximum Number of Shares that may yet be Purchased Under the Program (b)
May 31, 2010- June 27, 2010	13,298,571	$ 37.60	13,298,571	(c)
June 28, 2010- July 25, 2010	5,241,912	35.93	5,241,912	94,758,088
July 26, 2010- August 29, 2010	2,840,700	35.21	2,840,700	91,917,388
Total	21,381,183	$ 36.87	21,381,183	91,917,388

(a) These shares were purchased in the open market.

(b) On June 28, 2010, our Board of Directors approved and we announced an authorization for the repurchase of up to 100,000,000 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.

(c) Purchases made prior to June 28, 2010 were made pursuant to an authorization adopted by our Board of Directors on December 11, 2006, and that authorization was terminated on June 28, 2010.

Table of Contents

Item 6. Exhibits.

10.1	1998 Senior Management Stock Plan.
10.2	2001 Compensation Plan for Non-Employee Directors.
10.3	2003 Stock Compensation Plan.
10.4	2005 Stock Compensation Plan.
10.5	2006 Compensation Plan for Non-Employee Directors.
10.6	2007 Stock Compensation Plan.
10.7	2009 Stock Compensation Plan.
10.8	Executive Incentive Plan.
12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financial Statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended August 29, 2010, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of Total Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

Table of Contents

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 September 22, 2010	/s/ Roderick A. Palmore Roderick A. Palmore Executive Vice President, General Counsel and Secretary
Date September 22, 2010	/s/ Richard O. Lund Richard O. Lund Vice President, Controller (Principal Accounting Officer)

Table of Contents

Exhibit Index

Exhibit No.	Description
10.1	1998 Senior Management Stock Plan.
10.2	2001 Compensation Plan for Non-Employee Directors.
10.3	2003 Stock Compensation Plan.
10.4	2005 Stock Compensation Plan.
10.5	2006 Compensation Plan for Non-Employee Directors.
10.6	2007 Stock Compensation Plan.
10.7	2009 Stock Compensation Plan.
10.8	Executive Incentive Plan.
12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financial Statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended August 29, 2010, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Earnings, (iii) the Consolidated Statements of Total Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.