HORMEL FOODS CORP /DE/
Form 10-Q
June 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 27, 2014

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	41-0319970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Hormel Place Austin, Minnesota	55912-3680
(Address of principal executive offices)	(Zip Code)

(507) 437-5611

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X 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). X 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 X
Accelerated filer__
Non-accelerated filer __ (Do not check if a smaller reporting company)
Smaller reporting company__

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

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

Class	**Outstanding at June 1, 2014**
Common Stock $.0293 par value	263,996,030
Common Stock Non-Voting $.01 par value	-0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	April 27, 2014 (Unaudited)	October 27, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 499,330	$ 434,014
Accounts receivable	515,161	551,500
Inventories	1,053,501	967,977
Income taxes receivable	14,603	-
Deferred income taxes	71,749	73,543
Prepaid expenses	12,293	13,000
Other current assets	5,975	7,379
TOTAL CURRENT ASSETS	2,172,612	2,047,413
DEFERRED INCOME TAXES	17,912	25,086
GOODWILL	962,204	934,472
OTHER INTANGIBLES	376,058	378,093
PENSION ASSETS	170,351	162,535
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	267,706	270,609
OTHER ASSETS	142,734	142,339
PROPERTY, PLANT AND EQUIPMENT		
Land	61,557	58,506
Buildings	786,815	784,133
Equipment	1,558,011	1,532,527
Construction in progress	120,427	85,696
	2,526,810	2,460,862
Less allowance for depreciation	(1,550,563)	(1,505,529)
	976,247	955,333
TOTAL ASSETS	$ 5,085,824	$ 4,915,880

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	April 27, 2014 (Unaudited)	October 27, 2013
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 339,354	$ 387,284
Accrued expenses	43,385	20,965
Accrued workers compensation	39,207	38,217
Accrued marketing expenses	109,061	91,332
Employee related expenses	163,501	192,063
Taxes payable	4,067	8,637
Interest and dividends payable	53,419	45,511
TOTAL CURRENT LIABILITIES	751,994	784,009
PENSION AND POST-RETIREMENT BENEFITS	485,473	481,230
LONG-TERM DEBT less current maturities	250,000	250,000
OTHER LONG-TERM LIABILITIES	85,213	84,062
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value $.0293 a share authorized 800,000,000 shares;		
issued 263,929,263 shares April 27, 2014		
issued 263,658,296 shares October 27, 2013	7,733	7,725
Additional paid-in capital	37	-
Accumulated other comprehensive loss	(142,318)	(149,214)
Retained earnings	3,640,464	3,452,529
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	3,505,916	3,311,040
NONCONTROLLING INTEREST	7,228	5,539
TOTAL SHAREHOLDERS INVESTMENT	3,513,144	3,316,579
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 5,085,824	$ 4,915,880

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 27, 2014	**April 28, 2013**	**April 27, 2014**	**April 28, 2013**
Net sales	$ 2,244,866	$ 2,152,686	$ 4,487,538	$ 4,268,927
Cost of products sold	1,866,108	1,799,885	3,710,138	3,571,933
GROSS PROFIT	378,758	352,801	777,400	696,994
Selling, general and administrative	165,785	173,066	331,974	328,897
Equity in earnings of affiliates	3,583	7,194	8,322	17,037
OPERATING INCOME	216,556	186,929	453,748	385,134
Other income and expense:				
Interest and investment (expense) income	(306)	1,116	867	2,926
Interest expense	(3,093)	(3,142)	(6,187)	(6,236)
EARNINGS BEFORE INCOME TAXES	213,157	184,903	448,428	381,824
Provision for income taxes	72,451	58,262	153,264	124,138
NET EARNINGS	140,706	126,641	295,164	257,686
Less: Net earnings attributable to noncontrolling interest	616	1,121	1,726	2,450
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 140,090	$ 125,520	$ 293,438	$ 255,236
NET EARNINGS PER SHARE:				
BASIC	$ 0.53	$ 0.47	$ 1.11	$ 0.97
DILUTED	$ 0.52	$ 0.46	$ 1.09	$ 0.95
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	263,926	264,868	263,839	264,406
DILUTED	270,410	270,780	270,317	269,960
DIVIDENDS DECLARED PER SHARE:	$ 0.20	$ 0.17	$ 0.40	$ 0.34

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 27, 2014	**April 28, 2013**	**April 27, 2014**	**April 28, 2013**
NET EARNINGS	$ 140,706	$ 126,641	$ 295,164	$ 257,686
Other comprehensive income (loss), net of tax:				
Foreign currency translation	651	413	(1,640)	797
Pension and other benefits	988	5,482	2,007	11,036
Deferred hedging	6,964	(6,571)	6,492	(13,383)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	8,603	(676)	6,859	(1,550)
COMPREHENSIVE INCOME	149,309	125,965	302,023	256,136
Less: Comprehensive income attributable to noncontrolling interest	551	1,159	1,689	2,503
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 148,758	$ 124,806	$ 300,334	$ 253,633

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT

(in thousands, except per share amounts)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders Investment
Balance at October 28, 2012	$ 7,707	$ -	$ -	$ 3,135,317	$ (323,569)	$ 5,470	$ 2,824,925
Net earnings				526,211		3,865	530,076
Other comprehensive income					174,355	204	174,559
Purchases of common stock		(70,819)					(70,819)
Stock-based compensation expense			17,596				17,596
Exercise of stock options/nonvested shares	69		23,955				24,024
Shares retired	(51)	70,819	(41,551)	(29,217)			-
Distribution to noncontrolling interest						(4,000)	(4,000)
Declared cash dividends $.68 per share				(179,782)			(179,782)
Balance at October 27, 2013	$ 7,725	$ -	$ -	$ 3,452,529	$ (149,214)	$ 5,539	$ 3,316,579
(Unaudited)							
Net earnings				293,438		1,726	295,164
Other comprehensive income (loss)					6,896	(37)	6,859
Purchases of common stock		(15,126)					(15,126)
Stock-based compensation expense			10,944				10,944
Exercise of stock options/nonvested shares	17		4,210				4,227
Shares retired	(9)	15,126	(15,117)				-
Declared cash dividends $.40 per share				(105,503)			(105,503)
Balance at April 27, 2014	$ 7,733	$ -	$ 37	$ 3,640,464	$ (142,318)	$ 7,228	$ 3,513,144

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended	
	April 27, 2014	**April 28, 2013**
OPERATING ACTIVITIES		
Net earnings	$ 295,164	$ 257,686
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	59,049	56,405
Amortization of intangibles	4,635	4,756
Equity in earnings of affiliates, net of dividends	1,702	2,991
Provision for deferred income taxes	2,639	(266)
Gain on property/equipment sales and plant facilities	(644)	(41)
Non-cash investment activities	(582)	(1,884)
Stock-based compensation expense	10,944	11,906
Excess tax benefit from stock-based compensation	(10,038)	(18,138)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	36,339	44,802
(Increase) decrease in inventories	(82,840)	816
Decrease in prepaid expenses and other current assets	9,284	19
Increase in pension and post-retirement benefits	537	14,769
Decrease in accounts payable and accrued expenses	(51,154)	(116,263)
NET CASH PROVIDED BY OPERATING ACTIVITIES	275,035	257,558
INVESTING ACTIVITIES		
Sale of trading securities	-	77,558
Acquisitions of businesses/intangibles	(41,502)	(663,128)
Purchases of property/equipment	(77,063)	(45,494)
Proceeds from sales of property/equipment	6,231	4,311
Increase in investments, equity in affiliates, and other assets	(111)	(5,016)
NET CASH USED IN INVESTING ACTIVITIES	(112,445)	(631,769)
FINANCING ACTIVITIES		
Proceeds from short-term debt	-	25,000
Principal payments on short-term debt	-	(25,000)
Dividends paid on common stock	(97,594)	(84,405)
Share repurchase	(15,126)	(7,928)
Proceeds from exercise of stock options	5,546	28,615
Excess tax benefit from stock-based compensation	10,038	18,138
NET CASH USED IN FINANCING ACTIVITIES	(97,136)	(45,580)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(138)	151
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,316	(419,640)
Cash and cash equivalents at beginning of year	434,014	682,388
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 499,330	$ 262,748

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 27, 2013, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended October 27, 2013.

Investments

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company s earnings. Securities held by the trust generated gains of $0.9 million and $1.4 million for the second quarter and six months ended April 27, 2014, respectively, compared to gains of $1.3 million and $2.8 million for the second quarter and six months ended April 28, 2013. The majority of this portfolio is held in fixed return investments to reduce the exposure to volatility in equity markets.

Supplemental Cash Flow Information

Non-cash investment activities presented on the Consolidated Statements of Cash Flows generally consist of unrealized gains or losses on the Company s rabbi trust and other investments, amortization of affordable housing investments, and amortization of bond financing costs. The noted investments are included in other assets or short-term marketable securities on the Consolidated Statements of Financial Position. Changes in the value of these investments are included in the Company s net earnings and are presented in the Consolidated Statements of Operations as either interest and investment income or interest expense, as appropriate.

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides a revocable standby letter of credit for $3.5 million to guarantee obligations that may arise under worker compensation claims of an affiliated party. This potential obligation is not reflected in the Company s Consolidated Statements of Financial Position.

New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) updated the guidance within Accounting Standards Codification (ASC) 210, *Balance Sheet*. The update enhances disclosures related to the offsetting of certain assets and liabilities to enable users of financial statements to understand the effect of those arrangements on financial position. The updated guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted the new provisions of

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this accounting standard at the beginning of fiscal year 2014, and adoption did not have a material impact on the consolidated financial statements.

In February 2013, the FASB further updated the guidance within ASC 220, *Comprehensive Income*. The update requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income (AOCI) and changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under U.S. generally accepted accounting principles is required. The above information must be presented in one place, either parenthetically on the face of the financial statements by income statement line item, or in a note. The updated guidance is to be applied prospectively, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, with early adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2014, and adoption did not have a material impact on the consolidated financial statements as it relates to presentation and disclosure only.

In January 2014, the FASB updated the guidance within ASC 323, *Investments-Equity Method and Joint Ventures*. The update provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments modify the conditions that a reporting entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. If the modified conditions are met, the amendments permit an entity to make an accounting policy election to amortize the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit). Additionally, the amendments introduce new recurring disclosures about all investments in qualified affordable housing projects irrespective of the method used to account for the investments. The updated guidance is to be applied retrospectively, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. The Company expects to adopt the new provisions of this accounting standard at the beginning of fiscal year 2016, and adoption is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*. This topic converges the guidance within U.S. generally accepted accounting principles and international financial reporting standards and supersedes ASC 605, *Revenue Recognition.* The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. Accordingly, the Company plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2018, and is currently assessing the impact on its consolidated financial statements.

NOTE B ACQUISITIONS

On January 31, 2013, the Company acquired the United States based *SKIPPY* peanut butter business from Conopco, Inc. (doing business as Unilever United States Inc.), of Englewood Cliffs, N.J. for a total purchase price of $665.4 million in cash after final working capital adjustments. This acquisition included the Little Rock, Arkansas manufacturing facility and all sales worldwide, except sales in Mainland China. The purchase price was funded by the Company with cash on hand generated from operations and liquidating marketable securities.

On November 26, 2013, the Company also acquired the China based *SKIPPY* peanut butter business from Unilever United States Inc. for a preliminary purchase price of $41.5 million in cash. This acquisition includes the Weifang, China manufacturing facility and all sales in Mainland China. The purchase price was also funded by

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the Company with cash on hand. The purchase price is preliminary pending final working capital and tax valuations.

Operating results for both of these acquisitions have been included in the Company s Consolidated Statements of Operations from the date of acquisition and are primarily reflected in the Grocery Products and International & Other reporting segments. Pro forma results are not presented, as the acquisitions are not considered material to the consolidated Company.

SKIPPY is a well-established brand that allows the Company to expand its presence in the center of the store with a non-meat protein product and reinforces the Company s balanced product portfolio. The acquisition also provides the opportunity to strengthen the Company s global presence and complements the international sales strategy for the *SPAM* family of products.

NOTE C STOCK-BASED COMPENSATION

The Company issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. The Company s policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Options typically vest over four years and expire ten years after the date of the grant. The Company recognizes stock-based compensation expense ratably over the shorter of the requisite service period or vesting period. The fair value of stock-based compensation granted to retirement-eligible individuals is expensed at the time of grant.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of April 27, 2014, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at October 27, 2013	18,466	$ 22.09		
Granted	1,364	45.37		
Exercised	1,145	18.48		
Forfeited	12	33.15		
Outstanding at April 27, 2014	18,673	$ 24.00	5.5 years	$ 441,535
Exercisable at April 27, 2014	13,748	$ 20.36	4.5 years	$ 375,178

The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the second quarter and first six months of fiscal years 2014 and 2013 are as follows:

	Three Months Ended		Six Months Ended	
	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Weighted-average grant date fair value of options granted	$ 9.04	$ 6.57	$ 9.68	$ 5.50
Intrinsic value of exercised options	$ 18,567	$16,133	$ 31,969	$ 62,653

The fair value of each option award is calculated on the date of grant using the Black-Scholes valuation model utilizing the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Risk-Free Interest Rate	2.4%	1.7%	2.5%	1.4%
Dividend Yield	1.8%	1.9%	1.8%	2.1%
Stock Price Volatility	20.0%	20.0%	20.0%	20.0%
Expected Option Life	8 years	8 years	8 years	8 years

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As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company s Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee and non-employee director groups.

The Company s nonvested shares granted on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted after September 26, 2010, vest after one year. A reconciliation of the nonvested shares (in thousands) as of April 27, 2014, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 27, 2013	112	$ 24.77
Granted	33	43.46
Vested	75	27.35
Forfeited	5	19.56
Nonvested at April 27, 2014	65	$ 31.74

The weighted-average grant date fair value of nonvested shares granted, the total fair value (in thousands) of nonvested shares granted, and the fair value (in thousands) of shares that have vested during the first six months of fiscal years 2014 and 2013 are as follows:

	Six Months Ended	
	April 27, 2014	April 28, 2013
Weighted-average grant date fair value	$ 43.46	$ 35.42
Fair value of nonvested shares granted	$ 1,440	$ 1,600
Fair value of shares vested	$ 2,056	$ 1,758

Stock-based compensation expense, along with the related income tax benefit, for the second quarter and first six months of fiscal years 2014 and 2013 is presented in the table below.

	Three Months Ended		Six Months Ended	
(in thousands)	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Stock-based compensation expense recognized	$ 5,987	$ 6,330	$ 10,944	$ 11,906
Less: Income tax benefit recognized	(2,275)	(2,393)	(4,159)	(4,502)
After-tax stock-based compensation expense	$ 3,712	$ 3,937	$ 6,785	$ 7,404

At April 27, 2014, there was $10.9 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.8 years. During the second

quarter and six months ended April 27, 2014, cash received from stock option exercises was $2.1 million and $5.5 million, respectively, compared to $5.4 million and $28.6 million for the second quarter and six months ended April 28, 2013. The total tax benefit to be realized for tax deductions from these option exercises for the second quarter and six months ended April 27, 2014, was $7.0 million and $12.1 million, respectively, compared to $6.1 million and $23.7 million in the comparable periods in fiscal 2013.

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

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NOTE D GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the second quarter and six months ended April 27, 2014, are presented in the table below. The additions during the second quarter and first six months are entirely due to the acquisition of the China based *SKIPPY* peanut butter business on November 26, 2013.

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of January 26, 2014	$ 322,942	$ 96,643	$ 203,214	$ 207,028	$ 132,275	$ 962,102
Goodwill acquired	-	-	-	-	102	102
Balance as of April 27, 2014	$ 322,942	$ 96,643	$ 203,214	$ 207,028	$ 132,377	$ 962,204

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of October 27, 2013	$ 322,942	$ 96,643	$ 203,214	$ 207,028	$ 104,645	$ 934,472
Goodwill acquired	-	-	-	-	27,732	27,732
Balance as of April 27, 2014	$ 322,942	$ 96,643	$ 203,214	$ 207,028	$ 132,377	$ 962,204

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below. Customer relationships of $2.6 million were acquired during the first quarter of fiscal 2014 related to the China based *SKIPPY* peanut butter business.

	April 27, 2014		**October 27, 2013**	
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Customer lists/relationships	$ 45,940	$ (16,896)	$ 43,340	$ (14,719)
Formulas & recipes	17,854	(14,894)	17,854	(13,824)
Proprietary software & technology	14,820	(12,783)	14,820	(12,024)
Other intangibles	9,386	(8,628)	9,386	(7,999)
Total	$ 88,000	$ (53,201)	$ 85,400	$ (48,566)

Amortization expense was $2.3 million and $4.6 million for the second quarter and six months ended April 27, 2014, respectively, compared to $2.6 million and $4.8 million for the second quarter and six months ended April 28, 2013.

Estimated annual amortization expense (in thousands) for the five fiscal years after October 27, 2013, is as follows:

Fiscal Year	Estimated Amortization Expense
2014	$8,917
2015	5,528
2016	3,525
2017	3,091
2018	2,850

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

(in thousands)	April 27, 2014	October 27, 2013
Brands/trade names/trademarks	$ 333,275	$ 333,275
Other intangibles	7,984	7,984
Total	$ 341,259	$ 341,259

NOTE E INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES

The Company accounts for its majority-owned operations under the consolidation method. Investments in which the Company owns a minority interest, and for which there are no other indicators of control, are accounted for under the equity or cost method. These investments, along with any related receivables from affiliates, are included in the Consolidated Statements of Financial Position as investments in and receivables from affiliates.

Investments in and receivables from affiliates consists of the following:

(in thousands)	Segment	% Owned	April 27, 2014	October 27, 2013
MegaMex Foods, LLC	Grocery Products	50%	$ 200,769	$ 203,413
Foreign Joint Ventures	International & Other	Various (26-50%)	66,937	67,196
Total			$ 267,706	$ 270,609

Equity in earnings of affiliates consists of the following:

		Three Months Ended		Six Months Ended	
(in thousands)	Segment	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
MegaMex Foods, LLC	Grocery Products	$ 4,529	$ 7,607	$ 7,057	$ 14,644
Foreign Joint Ventures	International & Other	(946)	(413)	1,265	2,393
Total		$ 3,583	$ 7,194	$ 8,322	$ 17,037

Dividends received from affiliates were $0.0 million and $10.0 million for the three and six months ended April 27, 2014, respectively, compared to $10.0 million and $20.0 million for the prior fiscal year. The Company recognized a basis difference of $21.3 million associated with the formation of MegaMex Foods, LLC, of which $17.4 million is remaining as of April 27, 2014. This difference is being amortized through equity in earnings of affiliates.

NOTE F EARNINGS PER SHARE DATA

The reported net earnings attributable to the Company were used when computing basic and diluted earnings per share. The following table sets forth the shares used as the denominator for those computations:

	Three Months Ended		Six Months Ended	
(in thousands)	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Basic weighted-average shares outstanding	263,926	264,868	263,839	264,406
Dilutive potential common shares	6,484	5,912	6,478	5,554
Diluted weighted-average shares outstanding	270,410	270,780	270,317	269,960

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For the second quarter and six months ended April 27, 2014, 1.0 million and 0.8 million weighted-average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share, compared to 0.6 million and 0.8 million for the second quarter and six months ended April 28, 2013.

NOTE G ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss for the three and six months ended April 27, 2014 are presented in the tables below.

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at January 26, 2014	$ 7,072	$ (151,982)	$ (6,076)	$ (150,986)
Unrecognized gains:				
Gross	716	-	8,309	9,025
Tax effect	-	-	(3,131)	(3,131)
Reclassification into net earnings:				
Gross	-	1,594 (1)	2,867 (2)	4,461
Tax effect	-	(606)	(1,081)	(1,687)
Net of tax amount	716	988	6,964	8,668
Balance at April 27, 2014	$ 7,788	$ (150,994)	$ 888	$ (142,318)

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at October 27, 2013	$ 9,391	$ (153,001)	$ (5,604)	$ (149,214)
Unrecognized (losses) gains:				
Gross	(1,603)	38	4,305	2,740
Tax effect	-	(14)	(1,624)	(1,638)
Reclassification into net earnings:				
Gross	-	3,198 (1)	6,116 (2)	9,314
Tax effect	-	(1,215)	(2,305)	(3,520)
Net of tax amount	(1,603)	2,007	6,492	6,896
Balance at April 27, 2014	$ 7,788	$ (150,994)	$ 888	$ (142,318)

(1) Included in the computation of net periodic cost (see Note K Pension and Other Post-Retirement Benefits for additional details).

(2) Included in cost of products sold in the Consolidated Statements of Operations.

NOTE H INVENTORIES

Principal components of inventories are:

(in thousands)	April 27, 2014	October 27, 2013
Finished products	$ 587,325	$ 544,858
Raw materials and work-in-process	280,653	248,411
Materials and supplies	185,523	174,708
Total	$ 1,053,501	$ 967,977

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NOTE I **DERIVATIVES AND HEDGING**

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures contracts and swaps to manage the Company s exposure to price fluctuations in the commodities markets. The Company has determined that its programs which are designated as hedges are highly effective in offsetting the changes in fair value or cash flows generated by the items hedged.

Cash Flow Hedges: The Company currently utilizes corn futures to offset the price fluctuation in the Company s future direct grain purchases, and has historically entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of April 27, 2014, and October 27, 2013, the Company had the following outstanding commodity futures contracts and swaps that were entered into to hedge forecasted purchases:

	Volume	
Commodity	**April 27, 2014**	**October 27, 2013**
Corn	12.9 million bushels	14.7 million bushels

As of April 27, 2014, the Company has included in AOCL, hedging gains of $1.4 million (before tax) relating to these positions, compared to losses of $9.0 million (before tax) as of October 27, 2013. The Company expects to recognize the majority of these gains over the next 12 months. The balance as of April 27, 2014, includes a loss of $0.4 million related to corn futures contracts held for the Company s hog operations. These contracts were dedesignated as cash flow hedges during fiscal year 2013, as they were no longer highly effective. These losses will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of dedesignation have been recognized in earnings as incurred.

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statement of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of April 27, 2014, and October 27, 2013, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

	Volume	
Commodity	**April 27, 2014**	**October 27, 2013**
Corn	12.6 million bushels	5.8 million bushels
Lean hogs	0.9 million cwt	1.4 million cwt

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Other Derivatives: During fiscal years 2014 and 2013, the Company has held certain futures and options contract positions as part of a merchandising program and to manage the Company s exposure to fluctuations in commodity markets and foreign currencies. The Company has not applied hedge accounting to these positions. All foreign exchange and options contracts were closed as of the end of fiscal year 2013.

Additionally, during fiscal year 2013, the Company dedesignated its corn futures contracts held for its hog operations that were previously designated as cash flow hedges, as these contracts were no longer highly effective. Hedge accounting is no longer being applied to these contracts, and gains or losses occurring after the date of dedesignation have been recognized in earnings as incurred.

As of April 27, 2014, and October 27, 2013, the Company had the following outstanding futures contracts related to other programs:

	Volume	
Commodity	**April 27, 2014**	**October 27, 2013**
Corn	1.7 million bushels	1.7 million bushels

Fair Values: The fair values of the Company s derivative instruments (in thousands) as of April 27, 2014, and October 27, 2013, were as follows:

		Fair Value (1)	
	Location on Consolidated Statements of Financial Position	**April 27, 2014**	**October 27, 2013**
Asset Derivatives:			
Derivatives Designated as Hedges:			
Commodity contracts	Other current assets	$ (45,726)	$ (25,802)
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	(1,073)	(3,783)
Total Asset Derivatives		$ (46,799)	$ (29,585)

(1) Amounts represent the gross fair value of derivative assets and liabilities. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The amount or timing of cash collateral balances may impact the classification of the derivative in the Consolidated Statement of Financial Position. See Note J Fair Value Measurements for a discussion of these net amounts as reported in the Consolidated Statements of Financial Position.

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the second quarter ended April 27, 2014, and April 28, 2013, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1)(2)			Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1)(2)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3) (5)	
	Three Months Ended		Location on Consolidated Statements	Three Months Ended		Three Months Ended	
Cash Flow Hedges:	April 27, 2014	April 28, 2013	of Operations	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Commodity contracts	$ 8,309	$ (8,378)	Cost of products sold	$ (2,867)	$ 2,156	$ 517	$ (392)

		Gain/(Loss) Recognized in Earnings (Effective Portion) (4)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3) (6)	
	Location on Consolidated Statements	Three Months Ended		Three Months Ended	
Fair Value Hedges:	of Operations	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Commodity contracts	Cost of products sold	$ (15,889)	$ 3,628	$(19)	$ 85

		Gain/(Loss) Recognized in Earnings (2)	
	Location on Consolidated Statements	Three Months Ended	
Derivatives Not Designated as Hedges:	of Operations	April 27, 2014	April 28, 2013
Commodity contracts	Cost of products sold	$ 1,206	$ 351

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the six months ended April 27, 2014, and April 28, 2013, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1)(2)			Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1)(2)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3) (5)	
	Six Months Ended			Six Months Ended		Six Months Ended	
Cash Flow Hedges:	April 27, 2014	April 28, 2013	Location on Consolidated Statements of Operations	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Commodity contracts	$ 4,305	$ (12,469)	Cost of products sold	$ (6,116)	$ 8,986	$ 223	$ (226)

		Gain/(Loss) Recognized in Earnings (Effective Portion) (4)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3) (6)	
		Six Months Ended		Six Months Ended	
Fair Value Hedges:	Location on Consolidated Statements of Operations	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Commodity contracts	Cost of products sold	$ (14,635)	$ 2,542	$ (57)	$ 55

		Gain/(Loss) Recognized in Earnings (2)	
		Six Months Ended	
Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	April 27, 2014	April 28, 2013
Commodity contracts	Cost of products sold	$ 689	$ (733)

(1) Amounts represent gains or losses in AOCL before tax. See Note G Accumulated Other Comprehensive Loss or the Consolidated Statements of Comprehensive Income for the after tax impact of these gains or losses on net earnings.

(2) During fiscal year 2013, the Company dedesignated and ceased hedge accounting for its corn futures contracts held for its hog operations. At the date of dedesignation of these hedges, losses of $2.0 million (before tax) were deferred in AOCL, with $0.4 million (before tax) remaining as of April 27, 2014. These losses will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of dedesignation have been recognized in earnings as incurred.

(3) There were no gains or losses excluded from the assessment of hedge effectiveness during the second quarter or first six months of fiscal years 2014 and 2013.

(4) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the second quarter or first six months of fiscal years 2014 or 2013, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.

(5) There were no gains or losses resulting from the discontinuance of cash flow hedges during the second quarter or first six months of fiscal years 2014 and 2013.

(6) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the second quarter or first six months of fiscal years 2014 and 2013.

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NOTE J FAIR VALUE MEASUREMENTS

Pursuant to the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), the Company measures certain assets and liabilities at fair value or discloses the fair value of certain assets and liabilities recorded at cost in the consolidated financial statements. Fair value is calculated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820 establishes a fair value hierarchy which requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

Level 1: Observable inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than those included in Level 1, based on quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

Level 3: Unobservable inputs that reflect an entity s own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances.

The Company s financial assets and liabilities that are measured at fair value on a recurring basis as of April 27, 2014, and October 27, 2013, and their level within the fair value hierarchy, are presented in the tables below.

		Fair Value Measurements at April 27, 2014		
(in thousands)	Fair Value at April 27, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Cash and cash equivalents (1)	$ 499,330	$ 499,330	$ -	$ -
Other trading securities (2)	115,662	38,677	76,985	-
Commodity derivatives (3)	3,528	3,528	-	-
Total Assets at Fair Value	$ 618,520	$ 541,535	$ 76,985	$ -
Liabilities at Fair Value:				
Deferred compensation (2)	$ 52,108	$ 21,375	$ 30,733	$ -
Total Liabilities at Fair Value	$ 52,108	$ 21,375	$ 30,733	$ -

		Fair Value Measurements at October 27, 2013		
(in thousands)	Fair Value at October 27, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets at Fair Value:				
Cash and cash equivalents (1)	$ 434,014	$ 434,014	$ -	$ -
Other trading securities (2)	114,300	38,489	75,811	-
Commodity derivatives (3)	6,086	6,086	-	-
Total Assets at Fair Value	$ 554,400	$ 478,589	$ 75,811	$ -
Liabilities at Fair Value:				
Deferred compensation (2)	$ 52,771	$ 21,257	$ 31,514	$ -
Total Liabilities at Fair Value	$ 52,771	$ 21,257	$ 31,514	$ -

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The following methods and assumptions were used to estimate the fair value of the financial assets and liabilities above:

(1) The Company s cash equivalents consist primarily of money market funds rated AAA, and other highly liquid investment accounts. As these investments have a maturity date of three months or less, the carrying value approximates fair value.

(2) The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A majority of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these funds is set based on a formula using the yield of the general account investment portfolio that supports the fund, adjusted for expenses and other charges. The rate is guaranteed for one year at issue, and may be reset annually on the policy anniversary, subject to a guaranteed minimum rate. As the value is based on adjusted market rates, and the fixed rate is only reset on an annual basis, these funds are classified as Level 2. The remaining funds held are also managed by a third party, and include equity securities, money market accounts, bond funds, or other portfolios for which there is an active quoted market. Therefore these securities are classified as Level 1. The related deferred compensation liabilities are included in other long-term liabilities on the Consolidated Statements of Financial Position and are valued based on the underlying investment selections held in each participant s account. Investment options generally mirror those funds held by the rabbi trust, for which there is an active quoted market. Therefore these investment balances are classified as Level 1. The Company also offers a fixed rate investment option to participants. The rate earned on these investments is adjusted annually based on a specified percentage of the United States Internal Revenue Service (I.R.S.) Applicable Federal Rates in effect and therefore these balances are classified as Level 2.

(3) The Company s commodity derivatives represent futures contracts used in its hedging or other programs to offset price fluctuations associated with purchases of corn and soybean meal, and to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The Company s futures contracts for corn and soybean meal are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of April 27, 2014, the Company has recognized the right to reclaim cash collateral of $50.3 million from various counterparties. As of October 27, 2013, the Company had recognized the right to reclaim cash collateral of $35.7 million from various counterparties.

The Company s financial assets and liabilities also include accounts receivable, accounts payable, and other liabilities, for which carrying value approximates fair value. The Company does not carry its long-term debt at fair value in its Consolidated Statements of Financial Position. Based on borrowing rates available to the Company for long-term financing with similar terms and average maturities, the fair value of long-term debt, utilizing discounted cash flows (Level 2), was $269.0 million as of April 27, 2014, and $261.7 million as of October 27, 2013.

In accordance with the provisions of ASC 820, the Company also measures certain nonfinancial assets and liabilities at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). During the six months ended April 27, 2014, and April 28, 2013, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

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NOTE K PENSION AND OTHER POST-RETIREMENT BENEFITS

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

	Pension Benefits			
	Three Months Ended		Six Months Ended	
(in thousands)	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Service cost	$ 6,477	$ 7,745	$ 12,980	$ 15,490
Interest cost	13,219	11,922	26,593	23,844
Expected return on plan assets	(20,862)	(18,286)	(41,977)	(36,572)
Amortization of prior service cost	(1,243)	(1,270)	(2,486)	(2,540)
Recognized actuarial loss	3,171	8,504	6,353	17,009
Net periodic cost	$ 762	$ 8,615	$ 1,463	$ 17,231

	Post-retirement Benefits			
	Three Months Ended		Six Months Ended	
(in thousands)	April 27, 2014	April 28, 2013	April 27, 2014	April 28, 2013
Service cost	$ 483	$ 612	$ 966	$ 1,224
Interest cost	3,786	3,694	7,571	7,388
Amortization of prior service cost	(334)	(333)	(668)	(598)
Recognized actuarial loss (gain)	-	1,912	(1)	3,825
Net periodic cost	$ 3,935	$ 5,885	$ 7,868	$ 11,839

NOTE L INCOME TAXES

The amount of unrecognized tax benefits, including interest and penalties, at April 27, 2014, recorded in other long-term liabilities was $25.3 million, of which $16.8 million would impact the Company s effective tax rate if recognized. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense, with $(0.1) million and $0.3 million included in expense in the second quarter and first six months, respectively, of fiscal 2014. The amount of accrued interest and penalties at April 27, 2014, associated with unrecognized tax benefits was $3.3 million.

The Company is regularly audited by federal and state taxing authorities. During fiscal year 2013, the I.R.S. concluded its examination of the Company s consolidated federal income tax returns for the fiscal years 2010 and 2011; examinations have not yet begun for more recent fiscal years. The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2006. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

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NOTE M SEGMENT REPORTING

The Company develops, processes, and distributes a wide array of food products in a variety of markets. The Company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and International & Other.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results from the Company s MegaMex joint venture.

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment and the Affiliated Business Units. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. The Affiliated Business Units include the Farmer John (including Saag s Products, Inc.), Burke Corporation, Dan s Prize, and Precept Foods businesses. Precept Foods, LLC, is a 50.01 percent owned joint venture.

The Jennie-O Turkey Store segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

The Specialty Foods segment includes the Diamond Crystal Brands, Century Foods International, and Hormel Specialty Products operating segments. This segment consists of the packaging and sale of private label shelf stable products, nutritional products, sugar, and condiments to industrial, retail, and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

The International & Other segment includes the Hormel Foods International operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company s international joint ventures and miscellaneous corporate sales.

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

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

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(in thousands)	Three Months Ended April 27, 2014	Three Months Ended April 28, 2013	Six Months Ended April 27, 2014	Six Months Ended April 28, 2013
Sales to Unaffiliated Customers				
Grocery Products	$ 392,030	$ 393,505	$ 793,550	$ 727,645
Refrigerated Foods	1,111,244	1,011,370	2,239,665	2,074,771
Jennie-O Turkey Store	380,425	384,739	779,825	775,073
Specialty Foods	217,176	245,691	413,155	479,536
International & Other	143,991	117,381	261,343	211,902
Total	$ 2,244,866	$ 2,152,686	$ 4,487,538	$ 4,268,927
Intersegment Sales				
Grocery Products	$ -	$ -	$ -	$ -
Refrigerated Foods	6,601	3,296	12,347	5,739
Jennie-O Turkey Store	36,870	29,562	69,999	59,983
Specialty Foods	18	22	52	53
International & Other	-	-	-	-
Total	$ 43,489	$ 32,880	$ 82,398	$ 65,775
Intersegment elimination	(43,489)	(32,880)	(82,398)	(65,775)
Total	$ -	$ -	$ -	$ -
Net Sales				
Grocery Products	$ 392,030	$ 393,505	$ 793,550	$ 727,645
Refrigerated Foods	1,117,845	1,014,666	2,252,012	2,080,510
Jennie-O Turkey Store	417,295	414,301	849,824	835,056
Specialty Foods	217,194	245,713	413,207	479,589
International & Other	143,991	117,381	261,343	211,902
Intersegment elimination	(43,489)	(32,880)	(82,398)	(65,775)
Total	$ 2,244,866	$ 2,152,686	$ 4,487,538	$ 4,268,927
Segment Operating Profit				
Grocery Products	$ 54,890	$ 47,295	$ 111,232	$ 97,208
Refrigerated Foods	75,397	54,680	160,696	108,470
Jennie-O Turkey Store	52,808	51,999	112,353	110,944
Specialty Foods	19,134	25,967	40,389	49,728
International & Other	20,863	15,618	43,420	32,729
Total segment operating profit	$ 223,092	$ 195,559	$ 468,090	$ 399,079
Net interest and investment expense (income)	3,399	2,026	5,320	3,310
General corporate expense	7,152	9,751	16,068	16,395
Noncontrolling interest	616	1,121	1,726	2,450
Earnings before income taxes	$ 213,157	$ 184,903	$ 448,428	$ 381,824

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

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company s Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the fiscal year ended October 27, 2013.

RESULTS OF OPERATIONS

Overview

The Company is a processor of branded and unbranded food products for retail, foodservice, and fresh product customers. It operates in five reportable segments as described in Note M in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

For the second quarter of fiscal 2014, the Company reported net earnings per diluted share of $0.52, an increase of 13.0 percent compared to $0.46 per diluted share in the second quarter of fiscal 2013. Significant factors impacting the second quarter of fiscal 2014 were:

- Record sales and profits with four of the Company s five reporting segments generating segment profit growth.
- The Refrigerated Foods segment delivered segment profit gains driven by beneficial pork operating margins and growth in the foodservice value-added business.
- Grocery Products profits increased aided in part by a favorable comparison to fiscal 2013 which included *SKIPPY* peanut butter acquisition costs.
- The International & Other segment delivered a solid quarter driven by excellent results from the China business and robust export sales.
- Jennie-O Turkey Store segment profit improved slightly as favorable turkey commodity markets and growth in value-added product sales helped to mitigate lower live production performance.
- Lower results for Specialty Foods were largely due to the July 2013 expiration of the agreement allowing DCB to sell certain sugar substitutes in the foodservice trade channels.

Consolidated Results

Net earnings attributable to the Company for the second quarter of fiscal 2014 increased 11.6 percent to $140.1 million compared to $125.5 million in the same quarter of fiscal 2013. Diluted earnings per share for the second quarter increased 13.0 percent to $0.52 from $0.46 in the second quarter of fiscal 2013. Net earnings attributable to the Company for the first six months of fiscal 2014 increased 15.0 percent to $293.4 million compared to $255.2 million in fiscal 2013. Diluted earnings per share for the same period were $1.09 in fiscal 2014, compared to $0.95 in the prior year.

Net sales for the second quarter of fiscal 2014 increased 4.3 percent to $2.24 billion versus $2.15 billion in the second quarter of fiscal 2013. Tonnage decreased 1.3 percent to 1.22 billion lbs. for the second quarter compared to 1.24 billion lbs. in the same quarter of last year. Net sales for the first six months of fiscal 2014 increased 5.1 percent to $4.49 billion from $4.27 billion in the first six months of fiscal 2013. Tonnage for the first six months of fiscal 2014 increased 0.6 percent to 2.49 billion lbs. compared to 2.48 billion lbs. in 2013.

Strong export sales along with growth in the Company s China operations provided solid growth for the Company s international business. Value-added sales growth in the Refrigerated Foods segment was also a key driver of the increase in second quarter sales. Net sales in the International & Other segment for the second quarter were enhanced by the addition of the Mainland China *SKIPPY* peanut butter sales. The combined *SKIPPY* business, including the United States based business acquired at the beginning of the second quarter of fiscal 2013, contributed an incremental $96.8 million of net sales and 63.0 million lbs. for the first six months comparison, primarily in the Grocery Products and International & Other segments.

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Gross profit for the second quarter and first six months of fiscal 2014 was $378.8 million and $777.4 million, respectively, compared to $352.8 million and $697.0 million for the same periods last year. Gross profit as a percentage of net sales for the second quarter increased to 16.9 percent compared to 16.4 percent the prior year, and increased to 17.3 percent for the first six months of fiscal 2014 from 16.3 percent for the comparable six months of fiscal 2013. Strong margin gains were experienced for Refrigerated Foods as a result of higher pork operating margins and growth in the Company s value-added foodservice business, which more than offset margin pressures due to higher raw material costs. Additionally, robust export sales for the International & Other segment further enhanced the margin gains. The unusually cold winter along with abnormally high propane and natural gas prices negatively impacted live turkey productivity and margins for Jennie-O Turkey Store. The Specialty Foods segment delivered lower margins while continuing to rebuild its product portfolio following the expiration of the agreement allowing DCB to sell certain sugar substitutes into foodservice trade channels. Additionally, shipping and handling expenses for the second quarter and first six months of fiscal 2014 have increased in four of the Company s five segments.

Looking ahead to the second half of the fiscal year, the Company expects elevated beef, pork, turkey, and avocado costs to continue to squeeze margins on many of the Company s value-added products. Pricing actions taken in the second quarter will partially mitigate margin pressures, but will likely impact sales growth. The addition of the *SKIPPY* peanut butter business has added additional balance to the Company s product portfolio, moderating some of these overall input costs pressures. Pork raw material supplies are anticipated to tighten significantly later in the third quarter due to the Porcine Epidemic Diarrhea Virus (PEDv) impact, but the overall impact of tighter pork supplies on the industry remains to be seen. Year-over-year sales and profit growth from the Jennie-O Turkey Store segment is expected, while growth will be at more modest levels than initially anticipated. The significant growth enjoyed in the Company s international business is expected to continue going forward aided by the addition of the China based *SKIPPY* peanut butter business.

Selling, general and administrative expenses for the second quarter and first six months of fiscal 2014 were $165.8 million and $332.0 million, respectively, compared to $173.1 million and $328.9 million for the same periods last year. Selling, general and administrative expenses as a percentage of net sales decreased to 7.4 percent for both the second quarter and first six months of fiscal 2014, compared to 8.0 percent and 7.7 percent for the second quarter and first six months of fiscal 2013. Selling, general and administrative expenses were higher last year reflecting transaction and transition costs incurred due to the *SKIPPY* acquisition, primarily reflected in the Grocery Products and International & Other segments. Higher advertising and marketing expenses for the first six months contributed to the increase in the current year. The increase was a result of the ongoing Make the Switch advertising campaign for Jennie-O Turkey Store and advertising for *Hormel* chili and the *SPAM* family of products. The Company expects selling, general and administrative expenses to be between 7.3 percent and 7.6 percent for the full year in fiscal 2014.

Equity in earnings of affiliates was $3.6 million and $8.3 million for the second quarter and first six months of fiscal 2014, respectively, compared to $7.2 million and $17.0 million last year. Lower results from the Company s 50 percent owned MegaMex joint venture, reflecting higher input costs, drove the decrease for both the second quarter and first six months compared to the prior year.

The effective tax rate for the second quarter and first six months of fiscal 2014 was 34.0 percent and 34.2 percent, respectively, compared to 31.5 percent and 32.5 percent for the second quarter and first six months of fiscal 2013. The 2013 rate was lower due primarily to the benefit of net favorable settlements with various foreign and state tax jurisdictions. The Company expects a full-year effective tax rate between 34.0 and 34.5 percent for fiscal 2014.

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Segment Results

Net sales and operating profits for each of the Company s reportable segments are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent that these segments, if operated independently, would report the operating profit and other financial information shown below. Additional segment financial information can be found in Note M of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

	Three Months Ended			Six Months Ended		
(in thousands)	April 27, 2014	April 28, 2013	% Change	April 27, 2014	April 28, 2013	% Change
Net Sales						
Grocery Products	$ 392,030	$ 393,505	(0.4)	$ 793,550	$ 727,645	9.1
Refrigerated Foods	1,111,244	1,011,370	9.9	2,239,665	2,074,771	7.9
Jennie-O Turkey Store	380,425	384,739	(1.1)	779,825	775,073	0.6
Specialty Foods	217,176	245,691	(11.6)	413,155	479,536	(13.8)
International & Other	143,991	117,381	22.7	261,343	211,902	23.3
Total	$ 2,244,866	$ 2,152,686	4.3	$ 4,487,538	$ 4,268,927	5.1
Segment Operating Profit						
Grocery Products	$ 54,890	$ 47,295	16.1	$ 111,232	$ 97,208	14.4
Refrigerated Foods	75,397	54,680	37.9	160,696	108,470	48.1
Jennie-O Turkey Store	52,808	51,999	1.6	112,353	110,944	1.3
Specialty Foods	19,134	25,967	(26.3)	40,389	49,728	(18.8)
International & Other	20,863	15,618	33.6	43,420	32,729	32.7
Total segment operating profit	$ 223,092	$ 195,559	14.1	$ 468,090	$ 399,079	17.3
Net interest and investment expense (income)	3,399	2,026	67.8	5,320	3,310	60.7
General corporate expense	7,152	9,751	(26.7)	16,068	16,395	(2.0)
Noncontrolling interest	616	1,121	(45.0)	1,726	2,450	(29.6)
Earnings before income taxes	$ 213,157	$ 184,903	15.3	$ 448,428	$ 381,824	17.4

Grocery Products

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominantly in the retail market. This segment also includes the results from the Company s MegaMex joint venture.

Grocery Products net sales decreased 0.4 percent for the second quarter and increased 9.1 percent for the first six months of fiscal 2014 compared to the same fiscal 2013 periods. Tonnage increased 0.6 percent for the second quarter and 11.5 percent for the first six months of fiscal 2014 compared to the prior year. The comparative results for the first six months reflect the addition of the *SKIPPY* peanut butter business acquired at the beginning of the second quarter of fiscal 2013. This business contributed an incremental $73.3 million of net sales and 49.1 million lbs. to the top-line results for the first six months.

Sales for Grocery Products in the second quarter reflected lower sales for the *SPAM* family of products, the *Hormel Compleats* line of microwave meals, and *Dinty Moore* stew which offset sales gains for *SKIPPY* peanut butter, *Hormel* bacon toppings, and the *Herdez* line of Mexican products within the Company s MegaMex Foods joint venture. Pricing increases were implemented during the second quarter to mitigate higher input costs.

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Segment profit for Grocery Products increased 16.1 percent and 14.4 percent for the second quarter and first six months of fiscal 2014, respectively, compared to the second quarter and first six months of fiscal 2013, but were offset by transaction and transition costs related to the *SKIPPY* acquisition in fiscal 2013 which impacted last years results and the year-over-year profit comparisons for both the second quarter and first six months of fiscal 2014. Profit results for the second quarter were challenged by higher pork and beef input costs, along with higher chicken and avocado costs.

The Company anticipates continued margin pressures entering the third quarter due to elevated raw material costs. Pricing actions taken in the second quarter will partially offset these cost pressures. New *SKIPPY* Singles creamy peanut butter items were also introduced during the second quarter.

Refrigerated Foods

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment and the Affiliated Business Units. This segment consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. The Affiliated Business Units include the Farmer John (including Saag s Products, Inc.), Burke Corporation, Dan s Prize, and Precept Foods businesses. Precept Foods, LLC, is a 50.01 percent owned joint venture.

Net sales for the Refrigerated Foods segment increased 9.9 percent and 7.9 percent for the second quarter and first six months of fiscal 2014, respectively, compared to the same periods of fiscal 2013. Tonnage increased 0.2 percent and decreased 0.6 percent for the second quarter and first six months compared to the prior year. On the retail side, sales gains within the Meat Products business unit continued on *Black Label* bacon items and *Hormel REV* snack wraps. Higher sales of *Hormel Country Crock*® side dishes also contributed to the sales gains for the quarter following package design changes and holiday promotional activity. Within the Foodservice business unit, sales of *Hormel Fire Braised* meats and *Old Smokehouse* pecanwood smoked bacon again experienced gains for the quarter, along with improved sales of *Hormel Natural Choice* deli meats. Increased internal utilization of raw materials reduced commodity sales and impacted volume comparisons for the quarter.

Segment profit for Refrigerated Foods increased 37.9 percent and 48.1 percent for the second quarter and first six months of fiscal 2014, respectively, compared to the prior year. Higher pork operating margins more than offset elevated raw material costs that pressured margins in the value-added Meat Products business and the Affiliated Business Unites. Increased sales allowed the Foodservice business to deliver segment profit results that exceeded last year.

Entering the second half of the year, the Company expects tightened pork operating margins and elevated raw material prices which will pressure margins in the value-added businesses. Retail pricing actions were implemented late in the second quarter to offset higher raw material costs. The spread of PEDv in the industry continues to be a concern and will reduce volume through the Company s harvest facilities in the second half of the year. The Company is carefully monitoring the effects of PEDv on pork raw material supplies and will work closely with employees and customers to provide updates on any additional changes that may impact them. Ongoing growth through innovative value-added products continues with the addition of the new *Hormel Bacon 1* fully cooked bacon launched in foodservice channels in the second quarter.

Country Crock® remains a registered trademark of the Unilever Group of Companies and is being used under license.

Jennie-O Turkey Store

The Jennie-O Turkey Store (JOTS) segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for retail, foodservice, and fresh product customers.

JOTS net sales decreased 1.1 percent for the second quarter and increased 0.6 percent for the first six months of fiscal 2014, versus the comparable periods of fiscal 2013. Tonnage decreased 4.9 percent for the second quarter and 2.7 percent for the first six months of fiscal 2014, compared to fiscal 2013 results. Lower bird weights experienced during the quarter drove lower commodity sales and volumes. Second quarter sales gains were

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realized in value-added product of *Jennie-O Turkey Store* fresh ground turkey, turkey breakfast sausage, and turkey bacon, aided by the Make the Switch advertising campaign.

JOTS segment profit increased 1.6 percent and 1.3 percent for the second quarter and first six months of fiscal 2014, respectively, compared to the prior year. Lower feed costs and higher commodity turkey prices, along with growth in value-added product sales, allowed the segment to generate a modest profit increase in the second quarter. These gains offset lower live production performance and higher fuel expenses from the extended harsh winter.

Looking forward, JOTS is expecting the Make the Switch advertising campaign to continue to drive growth in the ground turkey chubs and tray pack items. Higher live production costs and lower performance will challenge third quarter results, but the Company anticipates modestly improved year-over-year results.

Specialty Foods

The Specialty Foods segment includes the Diamond Crystal Brands (DCB), Century Foods International (CFI), and Hormel Specialty Products (HSP) operating segments. This segment consists of the packaging and sale of private label shelf stable products, nutritional products, sugar, and condiments to industrial, retail, and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

Specialty Foods net sales decreased 11.6 percent and 13.8 percent for the second quarter and first six months of fiscal 2014, compared to the same periods of fiscal 2013. Tonnage decreased 13.8 percent for the second quarter and 11.8 percent for the first six months of fiscal 2014 compared to the prior year. Sales declines were largely driven by the expiration of the agreement in July 2013 allowing DCB to sell certain sugar substitutes into foodservice trade channels and softer sales in the lower margin ready-to-drink products which offset stronger nutritional sales for at CFI and DCB.

Specialty Foods segment profit decreased 26.3 percent for the second quarter and 18.8 percent for the first six months of fiscal 2014, compared to fiscal 2013 results. The results were primarily driven by the expiration of the sugar substitute agreement noted above. In addition, HSP was challenged with unfavorable raw material costs in the quarter offset by strong nutritional sales which drove increased margins for DCB and CFI.

The Company anticipates continued sales and profit declines due to the expiration of the sugar substitute agreement through the third quarter. The Company is working to rebuild the product portfolio within the segment for future growth.

International & Other

The International & Other segment includes the Hormel Foods International (HFI) operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company s international joint ventures and miscellaneous corporate sales.

International & Other net sales increased 22.7 percent and 23.3 percent for the second quarter and first six months of fiscal 2014, respectively, as compared to fiscal 2013. Improved results by the Company s China operations was driven by improvements in its core meat business, as well as the first full quarter of Mainland China *SKIPPY* sales. The combined *SKIPPY* business, including the United States based business acquired at the beginning of the second quarter of fiscal 2013, contributed an incremental $22.2 million of net sales and 13.1 million lbs. for the first six months comparison.

Segment profit for this segment also increased significantly, up 33.6 percent for the second quarter and 32.7 percent for the first six months of fiscal 2014, compared to fiscal 2013 results. The improved bottom-line results were primarily attributable to robust exports sales. Partially offsetting these gains were lower overall results from the Company s international joint ventures.

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The Company expects continued growth in the International & Other segment in the second half of the year. Higher input costs will compress margins for the *SPAM* family of products and create a challenging environment for fresh pork volumes and margins.

Unallocated Income and Expenses

The Company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The Company also retains various other income and unallocated expenses at corporate. Equity in earnings of affiliates is included in segment operating profit; however, earnings attributable to the Company s noncontrolling interests are excluded. These items are included in the segment table for the purpose of reconciling segment results to earnings before income taxes.

Net interest and investment expense (income) for the second quarter and first six months of fiscal 2014 was a net expense of $3.4 million and $5.3 million, respectively, compared to a net expense of $2.0 million and $3.3 million for the second quarter and first six months of fiscal 2013. The increased net expense for both the second quarter and six months was driven by lower returns on the Company s rabbi trust for supplemental executive retirement plans and an unfavorable currency exchange impact for the second quarter. Interest expense of $6.2 million for the first six months of fiscal 2014 remained flat compared to the prior year, and the Company anticipates that interest expense will approximate $12.0 to $14.0 million for the full year in fiscal 2014.

General corporate expense for the second quarter and first six months of fiscal 2014 was $7.2 million and $16.1 million, respectively, versus $9.8 million and $16.4 million for the comparable periods of fiscal 2013. The decreased expense during fiscal 2014 is primarily due to sales and use tax credits along with reduced salary and pension expense.

Net earnings attributable to the Company s noncontrolling interests were $0.6 million and $1.7 million for the second quarter and first six months of fiscal 2014, respectively, compared to $1.1 million and $2.5 million for the comparable periods of fiscal 2013. The change is largely due to lower performance from the Company s Precept Foods business.

Related Party Transactions

There has been no material change in the information regarding Related Party Transactions that was disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended October 27, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $499.3 million at the end of the second quarter of fiscal year 2014 compared to $262.7 million at the end of the comparable fiscal 2013 period.

Cash provided by operating activities was $275.0 million in the first six months of fiscal 2014 compared to $257.6 million in the same period of fiscal 2013. Increased earnings was the primary driver of the improved cash flows in fiscal 2014 offsetting overall unfavorable changes in working capital.

Cash used in investing activities decreased to $112.4 million in the first six months of fiscal 2014 from $631.8 million in the comparable period of fiscal 2013. The first six months of fiscal 2014 included $41.5 million used to purchase the China based *SKIPPY* peanut butter business in Weifang, China from Unilever United States Inc. The much larger use of cash in the first six months of 2013 included $663.1 million of preliminary acquisition costs for the United States based *SKIPPY* peanut butter business. In anticipation of that purchase in the prior year, the Company liquidated its marketable securities portfolio at the end of the first quarter of fiscal 2013, which generated $77.6 million in cash. Capital expenditures in the first six months of fiscal 2014 have increased to $77.1 million from $45.5 million in the comparable six months of fiscal 2013. The Company currently estimates its fiscal 2014 capital expenditures will be approximately $140.0 to $150.0 million.

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Cash used in financing activities was $97.1 million in the first six months of fiscal 2014 compared to $45.6 million in the same period of fiscal 2013. Proceeds generated from the Company s stock option plan exercises decreased $23.1 million in fiscal 2014. The Company also used $15.1 million for common stock repurchases in the first six months of fiscal 2014, compared to $7.9 million in the same period of the prior year. For additional information pertaining to the Company s share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Cash dividends paid to the Company s shareholders also continue to be an ongoing financing activity for the Company. Dividends paid in the first six months of 2014 were $97.6 million compared to $84.4 million in the comparable period of fiscal 2013. For fiscal 2014, the annual dividend rate was increased to $0.80 per share, representing the 48th consecutive annual dividend increase. The Company has paid dividends for 343 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and financial position. At the end of the second quarter of fiscal 2014, the Company was in compliance with all of these debt covenants.

Cash flows from operating activities continue to provide the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flows from this source in the foreseeable future because the Company operates in a relatively stable industry and has strong brands across many product lines.

Maximizing the value returned to shareholders through dividend payments remains a priority in fiscal 2014. A strong balance sheet continues to leave the Company well positioned to take advantage of strategic acquisition opportunities. Additional share repurchase activity and capital spending to enhance and expand current operations is also expected to continue throughout the year.

Contractual Obligations and Commercial Commitments

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at April 27, 2014, was $25.3 million.

There have been no other material changes to the information regarding the Company s future contractual financial obligations that was disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended October 27, 2013.

Off-Balance Sheet Arrangements

As of April 27, 2014, and October 27, 2013, the Company had $41.7 million and $42.6 million, respectively, of standby letters of credit issued on its behalf. The standby letters of credit are primarily related to the Company s self-insured workers compensation programs. However, that amount also includes $3.5 million of revocable standby letters of credit for obligations of an affiliated party that may arise under workers compensation claims. Letters of credit are not reflected in the Company s Consolidated Statements of Financial Position.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking information within the meaning of the federal securities laws. The forward-looking information may include statements concerning the Company s outlook for the future as well as other statements of beliefs, future plans, strategies, or anticipated events and similar expressions concerning matters that are not historical facts.

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides a safe harbor for forward-looking statements to encourage companies to provide prospective information. The Company is filing this cautionary statement in connection with the Reform Act. When used in this Quarterly Report on Form 10-Q, the Company s Annual Report to Stockholders, other filings by the Company with the Securities and Exchange Commission (the Commission), the Company s press releases, and oral statements made by the Company s representatives, the words or phrases should result, believe, intend, plan, are expected to, targeted, will continue, will approximate, is anticipated, estimat similar expressions are intended to identify forward-looking statements within the meaning of the Reform Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those anticipated or projected.

In connection with the safe harbor provisions of the Reform Act, the Company is identifying risk factors that could affect financial performance and cause the Company s actual results to differ materially from opinions or statements expressed with respect to future periods. The discussion of risk factors in Part II, Item 1A of this Quarterly Report on Form 10-Q contains certain cautionary statements regarding the Company s business, which should be considered by investors and others. Such risk factors should be considered in conjunction with any discussions of operations or results by the Company or its representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company.

In making these statements, the Company is not undertaking, and specifically declines to undertake, any obligation to address or update each or any factor in future filings or communications regarding the Company s business or results, and is not undertaking to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. Though the Company has attempted to list comprehensively these important cautionary risk factors, the Company wishes to caution investors and others that other factors may in the future prove to be important in affecting the Company s business or results of operations.

The Company cautions readers not to place undue reliance on forward-looking statements, which represent current views as of the date made. Forward-looking statements are inherently at risk to any changes in the national and worldwide economic environment, which could include, among other things, economic conditions, political developments, currency exchange rates, interest and inflation rates, accounting standards, taxes, and laws and regulations affecting the Company and its markets.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hog Markets: The Company s earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 10 years. Purchased hogs under contract accounted for 97 percent and 98 percent of the total hogs purchased by the Company during the first six months of fiscal 2014 and 2013, respectively. The majority of these contracts use market-based formulas based on hog futures, hog primal values, or industry reported hog markets. Other contracts use a formula based on the cost of production, which can fluctuate independently from hog markets. Under normal, long-term market conditions, changes in the cash hog market are offset by proportional changes in primal values. Therefore, a hypothetical 10 percent change in the cash hog market would have had an immaterial effect on the Company s results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. The fair value of the Company s open futures contracts as of April 27, 2014, was $(16.8) million compared to $(10.9) million as of October 27, 2013.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company s April 27, 2014, open contracts by $10.5 million, which in turn would lower the Company s future cost of purchased hogs by a similar amount.

Turkey and Hog Production Costs: The Company raises or contracts for live turkeys and hogs to meet some of its raw material supply requirements. Production costs in raising turkeys and hogs are subject primarily to fluctuations in feed prices, and to a lesser extent, fuel costs. Under normal, long-term market conditions, changes in the cost to produce turkeys and hogs are offset by proportional changes in their respective markets.

To reduce the Company s exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company s future direct grain purchases. This program currently utilizes corn futures for JOTS, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized gain of $0.5. million, before tax, on the Consolidated Statements of Financial Position as of April 27, 2014, compared to an unrealized loss of $(6.3) million, before tax, as of October 27, 2013.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company s April 27, 2014, open grain contracts by $6.6 million, which in turn would lower the Company s future cost on purchased grain by a similar amount.

Long-Term Debt: A principal market risk affecting the Company is the exposure to changes in interest rates on the Company s fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately $4.8 million. The fair value of the Company s long-term debt was estimated using discounted future cash flows based on the Company s incremental borrowing rate for similar types of borrowing arrangements.

Investments: The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. As of April 27, 2014, the balance of these securities totaled $115.7 million. A majority of these securities represent fixed income funds. The Company is subject to market risk due to fluctuations in the value of the remaining investments, as unrealized gains and losses

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associated with these securities are included in the Company s net earnings on a mark-to-market basis. A 10 percent decline in the value of the investments not held in fixed income funds would have a direct negative impact to the Company s pretax earnings of approximately $3.9 million, while a 10 percent increase in value would have a positive impact of the same amount.

International: While the Company does have international operations and operates in international markets, it considers its market risk in such activities to be immaterial.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures were effective to provide reasonable assurance that information the Company is required to disclose in reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Commission rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Internal Controls.

During the second quarter of fiscal year 2014, there has been no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal proceedings related to the on-going operation of its business, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws,

employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. However, future developments or settlements are uncertain and may require the Company to change such accruals as proceedings progress. Resolution of any currently known matters, either individually or in the aggregate, is not expected to have a material effect on the Company s financial condition, results of operations, or liquidity.

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Item 1A. Risk Factors

The Company s operations are subject to the general risks of the food industry.

The food products manufacturing industry is subject to the risks posed by:

¡ food spoilage;

¡ food contamination caused by disease-producing organisms or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and pathogenic *E coli*.;

¡ food allergens;

¡ nutritional and health-related concerns;

¡ federal, state, and local food processing controls;

¡ consumer product liability claims;

¡ product tampering; and

¡ the possible unavailability and/or expense of liability insurance.

The pathogens which may cause food contamination are found generally in livestock and in the environment and thus may be present in our products as a result of food processing. These pathogens also can be introduced to our products as a result of improper handling by customers or consumers. We do not have control over handling procedures once our products have been shipped for distribution. If one or more of these risks were to materialize, the Company s brand and business reputation could be negatively impacted. In addition, revenues could decrease, costs of doing business could increase, and the Company s operating results could be adversely affected.

Deterioration of economic conditions could harm the Company s business.

The Company s business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions. Decreases in consumer spending rates and shifts in consumer product preferences could also negatively impact the Company.

Volatility in financial markets and the deterioration of national and global economic conditions could impact the Company s operations as follows:

¡ The financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for the Company or non-performance by suppliers; and

¡ The value of our investments in debt and equity securities may decline, including most significantly the Company s trading securities held as part of a rabbi trust to fund supplemental executive retirement plans and deferred income plans, and the Company s assets held in pension plans.

The Company also utilizes hedging programs to manage its exposure to various commodity market risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in the Company s earnings each period. These instruments may also limit the Company s ability to benefit from market gains if commodity prices become more favorable than those that have been secured under the Company s hedging programs.

Additionally, if a high pathogenic disease outbreak developed in the United States, it may negatively impact the national economy, demand for Company products, and/or the Company s workforce availability, and the Company s financial results could suffer. The Company has developed contingency plans to address infectious disease scenarios and the potential impact on its operations, and will continue to update these plans as necessary. There can be no assurance given, however, that these plans will be effective in eliminating the negative effects of any such diseases on the Company s operating results.

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Fluctuations in commodity prices of pork, poultry, feed ingredients, avocados, and peanuts could harm the Company s earnings.

The Company s results of operations and financial condition are largely dependent upon the cost and supply of pork, poultry, feed grains, avocados, and peanuts as well as the selling prices for many of our products, which are determined by constantly changing market forces of supply and demand.

The live hog industry has evolved to very large, vertically integrated operations operating under long-term supply agreements. This has resulted in fewer hogs being available on the cash spot market. Additionally, overall hog production in the U.S. has declined. The decrease in the supply of hogs could diminish the utilization of harvest and production facilities and increase the cost of the raw materials they produce. Consequently, the Company uses long-term supply contracts based on market-based formulas or the cost of production to ensure a stable supply of raw materials while minimizing extreme fluctuations in costs over the long term. This may result, in the short term, in costs for live hogs that are higher than the cash spot market depending on the relationship of the cash spot market to contract prices. Market-based pricing on certain product lines, and lead time required to implement pricing adjustments, may prevent all or part of these cost increases from being recovered, and these higher costs could adversely affect our short-term financial results.

Jennie-O Turkey Store raises turkeys and also contracts with turkey growers to meet its raw material requirements for whole birds and processed turkey products. Additionally, the Company owns various hog raising facilities that supplement its supply of raw materials. Results in these operations are affected by the cost and supply of feed grains, which fluctuate due to climate conditions, production forecasts, and supply and demand conditions at local, regional, national, and worldwide levels. The Company attempts to manage some of its short-term exposure to fluctuations in feed prices by forward buying, using futures contracts, and pursuing pricing advances. However, these strategies may not be adequate to overcome sustained increases in market prices due to alternate uses for feed grains or other changes in these market conditions.

International trade barriers and other restrictions could result in less foreign demand and increased domestic supply of proteins which could lower prices.

Outbreaks of disease among livestock and poultry flocks could harm the Company s revenues and operating margins.

The Company is subject to risks associated with the outbreak of disease in pork and beef livestock, and poultry flocks, including Bovine Spongiform Encephalopathy (BSE), pneumo-virus, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), Foot-and-Mouth Disease (FMD), Porcine Epidemic Diarrhea Virus (PEDv), and Avian Influenza. The outbreak of disease could adversely affect the Company s supply of raw materials, increase the cost of production, reduce utilization of the Company s harvest facilities, and reduce operating margins. Additionally, the outbreak of disease may hinder the Company s ability to market and sell products both domestically and internationally. Most recently, the PED virus has impacted the Company s internal farm operations and several of the Company s independent hog suppliers. The spread of PEDv in the industry continues to be a concern and will reduce volume through the Company s harvest facilities in the second half of the year. The Company has developed business continuity plans for various disease scenarios and will continue to update these plans as necessary. There can be no assurance given, however, that these plans will be effective in eliminating the negative effects of any such diseases on the Company s operating results.

Market demand for the Company s products may fluctuate.

The Company faces competition from producers of alternative meats and protein sources, including pork, beef, turkey, chicken, fish, and peanut butter. The bases on which the Company competes include:

- price;
- product quality and attributes;
- brand identification;
- breadth of product line; and
- customer service.

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Demand for the Company s products is also affected by competitors promotional spending, the effectiveness of the Company s advertising and marketing programs, and consumer perceptions. The Company may be unable to compete successfully on any or all of these bases in the future.

The Company s operations are subject to the general risks associated with acquisitions.

The Company has made several acquisitions in recent years, most recently the acquisition of the *SKIPPY* peanut butter business, and regularly reviews opportunities for strategic growth through acquisitions. Potential risks associated with acquisitions include the inability to integrate new operations successfully, the diversion of management s attention from other business concerns, the potential loss of key employees and customers of the acquired companies, the possible assumption of unknown liabilities, potential disputes with the sellers, potential impairment charges if purchase assumptions are not achieved or market conditions decline, and the inherent risks in entering markets or lines of business in which the Company has limited or no prior experience. Any or all of these risks could impact the Company s financial results and business reputation. In addition, acquisitions outside the United States may present unique challenges and increase the Company s exposure to the risks associated with foreign operations.

The Company s operations are subject to the general risks of litigation.

The Company is involved on an ongoing basis in litigation arising in the ordinary course of business. Trends in litigation may include class actions involving employees, consumers, competitors, suppliers, shareholders, or injured persons, and claims relating to product liability, contract disputes, intellectual property, advertising, labeling, wage and hour laws, employment practices, or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could adversely affect the Company s financial results.

The Company is subject to the loss of a material contract.

The Company is a party to several supply, distribution, contract packaging, and other material contracts. The loss of a material contract could adversely affect the Company s financial results.

Government regulation, present and future, exposes the Company to potential sanctions and compliance costs that could adversely affect the Company s business.

The Company s operations are subject to extensive regulation by the U.S. Department of Homeland Security, the U.S. Department of Agriculture, the U.S. Food and Drug Administration, federal and state taxing authorities, and other state and local authorities that oversee workforce immigration laws, tax regulations, animal welfare, food safety standards, and the processing, packaging, storage, distribution, advertising, and labeling of the Company s products. The Company s manufacturing facilities and products are subject to continuous inspection by federal, state, and local authorities. Claims or enforcement proceedings could be brought against the Company in the future. The availability of government inspectors due to a government furlough could also cause disruption to the Company s manufacturing facilities. Additionally, the Company is subject to new or modified laws, regulations, and accounting standards. The Company s failure or inability to comply with such

requirements could subject the Company to civil remedies, including fines, injunctions, recalls, or seizures, as well as potential criminal sanctions.

The Company is subject to stringent environmental regulation and potentially subject to environmental litigation, proceedings, and investigations.

The Company s past and present business operations and ownership and operation of real property are subject to stringent federal, state, and local environmental laws and regulations pertaining to the discharge of materials into the environment, and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Compliance with these laws and regulations, and the ability to comply with any modifications to these laws and regulations, is material to the Company s business. New matters or sites may be identified in the future that will require additional investigation, assessment, or expenditures. In addition, some of the Company s facilities have been in operation for many years and, over time, the Company and other prior operators of these facilities may have generated and disposed of wastes that now may be considered hazardous. Future discovery of contamination of property underlying or in the vicinity of the Company s present

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or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur additional expenses. The occurrence of any of these events, the implementation of new laws and regulations, or stricter interpretation of existing laws or regulations, could adversely affect the Company s financial results.

The Company s foreign operations pose additional risks to the Company s business.

The Company operates its business and markets its products internationally. The Company s foreign operations are subject to the risks described above, as well as risks related to fluctuations in currency values, foreign currency exchange controls, compliance with foreign laws, compliance with applicable U.S. laws, including the Foreign Corrupt Practices Act, and other economic or political uncertainties. International sales are subject to risks related to general economic conditions, imposition of tariffs, quotas, trade barriers and other restrictions, enforcement of remedies in foreign jurisdictions and compliance with applicable foreign laws, and other economic and political uncertainties. All of these risks could result in increased costs or decreased revenues, which could adversely affect the Company s financial results.

Deterioration of labor relations or increases in labor costs could harm the Company s business.

As of April 27, 2014, the Company had approximately 20,100 employees worldwide, of which approximately 5,600 were represented by U.S. labor unions, principally the United Food and Commercial Workers Union. A significant increase in labor costs or a deterioration of labor relations at any of the Company s facilities or contracted hog processing facilities that results in work slowdowns or stoppages could harm the Company s financial results. The union contract at the Company s facility in San Leandro, California will expire during fiscal 2014 and negotiations have not yet been initiated. This contract covers 102 employees.

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

Issuer Purchases of Equity Securities in the Second Quarter of Fiscal 2014

Period	Total Number of Shares Purchased1	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs2	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs2
January 27, 2014 March 2, 2014	85,110	$ 43.73	85,100	9,360,100
March 3, 2014 March 30, 2014	200,000	47.33	200,000	9,160,100
March 31, 2014 April 27, 2014	40,000	48.48	40,000	9,120,100
Total	325,110	$ 46.53	325,100	

1The 10 shares repurchased during the second quarter, other than through publicly announced plans or programs, represent purchases for a Company employee award program.

2On January 31, 2013, the Company announced that its Board of Directors had authorized the repurchase of 10,000,000 shares of its common stock with no expiration date. The repurchase program was authorized at a meeting of the Company s Board of Directors on January 29, 2013.

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Item 6.Exhibits

31.1	Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HORMEL FOODS CORPORATION
(Registrant)

Date: June 6, 2014	By	/s/ JODY H. FERAGEN JODY H. FERAGEN Executive Vice President, Chief Financial Officer, and Director (Principal Financial Officer)
Date: June 6, 2014	By	/s/ JAMES N. SHEEHAN JAMES N. SHEEHAN Vice President and Controller (Principal Accounting Officer)