

HORMEL FOODS CORP /DE/  
Form 10-Q  
September 05, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 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  
(State or other jurisdiction of incorporation or organization)

41-0319970  
(I.R.S. Employer Identification No.)

1 Hormel Place  
Austin, Minnesota  
(Address of principal executive offices)

55912-3680  
(Zip Code)

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(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. ☒ YES ☐ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ YES ☐ NO

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

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 August 31, 2014 |
|-------------------------|--------------------------------|
| Common Stock            | \$.0293 par value 263,456,527  |
| 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)

|                                                           | <b>July 27,<br/>2014</b> |    | <b>October 27,<br/>2013</b> |
|-----------------------------------------------------------|--------------------------|----|-----------------------------|
|                                                           | (Unaudited)              |    |                             |
| <b>ASSETS</b>                                             |                          |    |                             |
| <b>CURRENT ASSETS</b>                                     |                          |    |                             |
| Cash and cash equivalents                                 | \$ 530,977               | \$ | 434,014                     |
| Accounts receivable                                       | 536,505                  |    | 551,500                     |
| Inventories                                               | 1,076,892                |    | 967,977                     |
| Income taxes receivable                                   | 6,622                    |    | -                           |
| Deferred income taxes                                     | 71,741                   |    | 73,543                      |
| Prepaid expenses                                          | 13,140                   |    | 13,000                      |
| Other current assets                                      | 9,164                    |    | 7,379                       |
| <b>TOTAL CURRENT ASSETS</b>                               | <b>2,245,041</b>         |    | <b>2,047,413</b>            |
| <b>DEFERRED INCOME TAXES</b>                              | <b>22,812</b>            |    | <b>25,086</b>               |
| <b>GOODWILL</b>                                           | <b>962,577</b>           |    | <b>934,472</b>              |
| <b>OTHER INTANGIBLES</b>                                  | <b>373,716</b>           |    | <b>378,093</b>              |
| <b>PENSION ASSETS</b>                                     | <b>199,770</b>           |    | <b>162,535</b>              |
| <b>INVESTMENTS IN AND RECEIVABLES FROM<br/>AFFILIATES</b> | <b>263,136</b>           |    | <b>270,609</b>              |
| <b>OTHER ASSETS</b>                                       | <b>143,231</b>           |    | <b>142,339</b>              |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                      |                          |    |                             |
| Land                                                      | 61,564                   |    | 58,506                      |

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|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Buildings                       | 789,425          | 784,133          |
| Equipment                       | 1,564,491        | 1,532,527        |
| Construction in progress        | 122,528          | 85,696           |
|                                 | 2,538,008        | 2,460,862        |
| Less allowance for depreciation | (1,559,858)      | (1,505,529)      |
|                                 | 978,150          | 955,333          |
| <br>TOTAL ASSETS                | <br>\$ 5,188,433 | <br>\$ 4,915,880 |

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands, except share and per share amounts)

|                                                                                                                   | July 27,<br>2014<br>(Unaudited) | October 27,<br>2013     |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>                                                                   |                                 |                         |
| <b>CURRENT LIABILITIES</b>                                                                                        |                                 |                         |
| Accounts payable                                                                                                  | \$ 358,016                      | \$ 387,284              |
| Accrued expenses                                                                                                  | 45,211                          | 20,965                  |
| Accrued workers compensation                                                                                      | 38,361                          | 38,217                  |
| Accrued marketing expenses                                                                                        | 99,598                          | 91,332                  |
| Employee related expenses                                                                                         | 183,431                         | 192,063                 |
| Taxes payable                                                                                                     | 4,464                           | 8,637                   |
| Interest and dividends payable                                                                                    | 56,018                          | 45,511                  |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                  | <b>785,099</b>                  | <b>784,009</b>          |
| <br><b>PENSION AND POST-RETIREMENT BENEFITS</b>                                                                   | <br><b>487,375</b>              | <br><b>481,230</b>      |
| <br><b>LONG-TERM DEBT less current maturities</b>                                                                 | <br><b>250,000</b>              | <br><b>250,000</b>      |
| <br><b>OTHER LONG-TERM LIABILITIES</b>                                                                            | <br><b>86,379</b>               | <br><b>84,062</b>       |
| <br><b>SHAREHOLDERS' INVESTMENT</b>                                                                               |                                 |                         |
| 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;<br>issued 264,002,693 shares July 27, 2014 | 7,735                           | 7,725                   |
| issued 263,658,296 shares October 27, 2013                                                                        | -                               | -                       |
| Additional paid-in capital                                                                                        | -                               | -                       |
| Accumulated other comprehensive loss                                                                              | (151,771)                       | (149,214)               |
| Retained earnings                                                                                                 | 3,715,339                       | 3,452,529               |
| <b>HORMEL FOODS CORPORATION SHAREHOLDERS' INVESTMENT</b>                                                          | <b>3,571,303</b>                | <b>3,311,040</b>        |
| <b>NONCONTROLLING INTEREST</b>                                                                                    | <b>8,277</b>                    | <b>5,539</b>            |
| <b>TOTAL SHAREHOLDERS' INVESTMENT</b>                                                                             | <b>3,579,580</b>                | <b>3,316,579</b>        |
| <br><b>TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>                                                         | <br><b>\$ 5,188,433</b>         | <br><b>\$ 4,915,880</b> |

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 |                  | Nine Months Ended |                  |
|------------------------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                                            | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| Net sales                                                  | \$ 2,284,947       | \$ 2,159,525     | \$ 6,772,485      | \$ 6,428,452     |
| Cost of products sold                                      | 1,920,948          | 1,829,219        | 5,631,086         | 5,401,152        |
| GROSS PROFIT                                               | 363,999            | 330,306          | 1,141,399         | 1,027,300        |
| Selling, general and administrative                        | 153,035            | 150,999          | 485,009           | 479,896          |
| Equity in earnings of affiliates                           | 3,540              | 1,346            | 11,862            | 18,383           |
| OPERATING INCOME                                           | 214,504            | 180,653          | 668,252           | 565,787          |
| Other income and expense:                                  |                    |                  |                   |                  |
| Interest and investment income (expense)                   | 1,603              | (455)            | 2,470             | 2,471            |
| Interest expense                                           | (3,125)            | (3,122)          | (9,312)           | (9,358)          |
| EARNINGS BEFORE INCOME TAXES                               | 212,982            | 177,076          | 661,410           | 558,900          |
| Provision for income taxes                                 | 73,968             | 63,171           | 227,232           | 187,309          |
| NET EARNINGS                                               | 139,014            | 113,905          | 434,178           | 371,591          |
| Less: Net earnings attributable to noncontrolling interest | 1,039              | 270              | 2,765             | 2,720            |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION      | \$ 137,975         | \$ 113,635       | \$ 431,413        | \$ 368,871       |
| NET EARNINGS PER SHARE:                                    |                    |                  |                   |                  |
| BASIC                                                      | \$ 0.52            | \$ 0.43          | \$ 1.63           | \$ 1.39          |
| DILUTED                                                    | \$ 0.51            | \$ 0.42          | \$ 1.60           | \$ 1.37          |
| WEIGHTED-AVERAGE SHARES OUTSTANDING:                       |                    |                  |                   |                  |
| BASIC                                                      | 263,983            | 264,605          | 263,887           | 264,472          |
| DILUTED                                                    | 270,400            | 270,769          | 270,345           | 270,230          |
| DIVIDENDS DECLARED PER SHARE:                              | \$ 0.20            | \$ 0.17          | \$ 0.60           | \$ 0.51          |

See Notes to Consolidated Financial Statements



Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(Unaudited)**

|                                                                    | <b>Three Months Ended</b> |                          | <b>Nine Months Ended</b> |                          |
|--------------------------------------------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                                                                    | <b>July 27,<br/>2014</b>  | <b>July 28,<br/>2013</b> | <b>July 27,<br/>2014</b> | <b>July 28,<br/>2013</b> |
| NET EARNINGS                                                       | \$ 139,014                | \$ 113,905               | \$ 434,178               | \$ 371,591               |
| Other comprehensive (loss) income, net of tax:                     |                           |                          |                          |                          |
| Foreign currency translation                                       | 305                       | (3,613)                  | (1,335)                  | (2,816)                  |
| Pension and other benefits                                         | 915                       | 6,484                    | 2,922                    | 17,520                   |
| Deferred hedging                                                   | (10,663)                  | (3,158)                  | (4,171)                  | (16,541)                 |
| TOTAL OTHER COMPREHENSIVE (LOSS) INCOME                            | (9,443)                   | (287)                    | (2,584)                  | (1,837)                  |
| COMPREHENSIVE INCOME                                               | 129,571                   | 113,618                  | 431,594                  | 369,754                  |
| Less: Comprehensive income attributable to noncontrolling interest | 1,049                     | 376                      | 2,738                    | 2,879                    |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION      | \$ 128,522                | \$ 113,242               | \$ 428,856               | \$ 366,875               |

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT****(in thousands, except per share amounts)****(Unaudited)**

|                                            | Hormel Foods Corporation Shareholders |          |            |              | Accumulated   | Non-        | Total        |
|--------------------------------------------|---------------------------------------|----------|------------|--------------|---------------|-------------|--------------|
|                                            | Common                                | Treasury | Additional | Retained     | Other         | controlling | Shareholders |
|                                            | Stock                                 | Stock    | Paid-in    | Earnings     | Comprehensive | Interest    | Investment   |
|                                            |                                       |          | Capital    |              | Income (Loss) |             |              |
| 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 |
| <b>(Unaudited)</b>                         |                                       |          |            |              |               |             |              |
| Net earnings                               |                                       |          |            | 431,413      |               | 2,765       | 434,178      |
| Other comprehensive income (loss)          |                                       |          |            |              | (2,557)       | (27)        | (2,584)      |
| Purchases of common stock                  |                                       | (28,068) |            |              |               |             | (28,068)     |
| Stock-based compensation expense           |                                       |          | 12,690     |              |               |             | 12,690       |
| Exercise of stock options/nonvested shares | 27                                    |          | 5,046      |              |               |             | 5,073        |
| Shares retired                             | (17)                                  | 28,068   | (17,736)   | (10,315)     |               |             | -            |
| Declared cash dividends \$.60 per share    |                                       |          |            | (158,288)    |               |             | (158,288)    |
| Balance at July 27, 2014                   | \$ 7,735                              | \$ -     | \$ -       | \$ 3,715,339 | \$ (151,771)  | \$ 8,277    | \$ 3,579,580 |

See Notes to Consolidated Financial Statements

Table of Contents**HORMEL FOODS CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

|                                                                            | <b>Nine Months Ended</b> |                      |
|----------------------------------------------------------------------------|--------------------------|----------------------|
|                                                                            | <b>July 27, 2014</b>     | <b>July 28, 2013</b> |
| <b>OPERATING ACTIVITIES</b>                                                |                          |                      |
| Net earnings                                                               | \$ 434,178               | \$ 371,591           |
| Adjustments to reconcile to net cash provided by operating activities:     |                          |                      |
| Depreciation                                                               | 90,189                   | 85,824               |
| Amortization of intangibles                                                | 6,945                    | 7,162                |
| Equity in earnings of affiliates, net of dividends                         | 7,279                    | 15,636               |
| Provision for deferred income taxes                                        | 2,382                    | (6,009)              |
| Gain on property/equipment sales and plant facilities                      | (1,261)                  | (691)                |
| Non-cash investment activities                                             | (1,852)                  | (1,452)              |
| Stock-based compensation expense                                           | 12,690                   | 16,429               |
| Excess tax benefit from stock-based compensation                           | (17,814)                 | (18,930)             |
| Other                                                                      | -                        | 1,000                |
| Changes in operating assets and liabilities, net of acquisitions:          |                          |                      |
| Decrease (increase) in accounts receivable                                 | 14,995                   | (7,357)              |
| Increase in inventories                                                    | (106,231)                | (4,060)              |
| Decrease in prepaid expenses and other current assets                      | 5,034                    | 5,603                |
| (Decrease) increase in pension and post-retirement benefits                | (25,873)                 | 791                  |
| Decrease in accounts payable and accrued expenses                          | (26,295)                 | (36,688)             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                           | <b>394,366</b>           | <b>428,849</b>       |
| <b>INVESTING ACTIVITIES</b>                                                |                          |                      |
| Net sale of trading securities                                             | -                        | 77,558               |
| Acquisitions of businesses/intangibles                                     | (41,876)                 | (665,415)            |
| Purchases of property/equipment                                            | (111,827)                | (68,731)             |
| Proceeds from sales of property/equipment                                  | 8,568                    | 6,519                |
| Decrease (increase) in investments, equity in affiliates, and other assets | 905                      | (4,810)              |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                               | <b>(144,230)</b>         | <b>(654,879)</b>     |
| <b>FINANCING ACTIVITIES</b>                                                |                          |                      |
| Proceeds from short-term debt                                              | -                        | 25,000               |
| Principal payments on short-term debt                                      | -                        | (25,000)             |
| Dividends paid on common stock                                             | (150,360)                | (129,426)            |
| Share repurchase                                                           | (28,068)                 | (45,668)             |
| Proceeds from exercise of stock options                                    | 8,496                    | 29,268               |
| Excess tax benefit from stock-based compensation                           | 17,814                   | 18,930               |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                               | <b>(152,118)</b>         | <b>(126,896)</b>     |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                             | <b>(1,055)</b>           | <b>34</b>            |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                    | <b>96,963</b>            | <b>(352,892)</b>     |
| Cash and cash equivalents at beginning of year                             | 434,014                  | 682,388              |
| <b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>                         | <b>\$ 530,977</b>        | <b>\$ 329,496</b>    |



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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 \$1.6 million and \$3.0 million for the third quarter and nine months ended July 27, 2014, respectively, compared to gains of \$92 thousand and \$2.8 million for the third quarter and nine months ended July 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

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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.

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 August 11, 2014, subsequent to the end of the third quarter, the Company acquired CytoSport Holdings, Inc., of Benicia, California for a preliminary purchase price of \$424.3 million in cash. The purchase price is preliminary pending payments for liabilities on behalf of the seller and final working capital adjustments not to exceed a total purchase price of \$450.0 million, and was funded by the Company with cash on hand and by utilizing funds from its revolving line of credit. The agreement provides for a potential additional payment of up to \$20.0 million subject

to meeting specific financial performance criteria over the next two years.

CytoSport is the maker of *Muscle Milk*® products and is a leading provider of premium protein products in the sports nutrition category. CytoSport's brands align with the Company's focus on protein while further diversifying the Company's portfolio. Operating results for this acquisition will be included in the Company's

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Consolidated Statements of Operations from the date of acquisition (i.e. beginning in the fourth quarter) and will be reflected in the Specialty Foods reporting segment.

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 \$41.9 million in cash. This acquisition includes the Weifang, China manufacturing facility and all sales in Mainland China. The purchase price was also funded by the Company with cash on hand. The purchase price is preliminary pending final tax valuations.

Operating results for both of these *SKIPPY* 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 grant date. 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 July 27, 2014, and changes during the nine months then ended, is as follows:

| Shares | Weighted-Average Exercise Price | Weighted-Average Remaining | Aggregate Intrinsic Value (in thousands) |
|--------|---------------------------------|----------------------------|------------------------------------------|
|--------|---------------------------------|----------------------------|------------------------------------------|

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|                                 |        |    | <b>Contractual<br/>Term</b> |           |            |
|---------------------------------|--------|----|-----------------------------|-----------|------------|
| Outstanding at October 27, 2013 | 18,466 | \$ | 22.09                       |           |            |
| Granted                         | 1,400  |    | 45.43                       |           |            |
| Exercised                       | 1,860  |    | 17.48                       |           |            |
| Forfeited                       | 17     |    | 32.56                       |           |            |
| Outstanding at July 27, 2014    | 17,989 | \$ | 24.37                       | 5.5 years | \$ 419,989 |
| Exercisable at July 27, 2014    | 13,031 | \$ | 20.61                       | 4.4 years | \$ 353,319 |

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

|                                                           | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                                           | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| Weighted-average grant date fair value of options granted | \$ 10.52           | \$ 7.75          | \$ 9.70           | \$ 5.50          |
| Intrinsic value of exercised options                      | \$ 23,512          | \$ 2,591         | \$ 55,481         | \$ 65,244        |

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 |                  | Nine Months Ended |                  |
|-------------------------|--------------------|------------------|-------------------|------------------|
|                         | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| Risk-Free Interest Rate | 2.6%               | 1.4%             | 2.5%              | 1.4%             |
| Dividend Yield          | 1.7%               | 1.7%             | 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          |

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 July 27, 2014, and changes during the nine 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 July 27, 2014    | 65     | \$ 31.74                               |

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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 nine months of fiscal years 2014 and 2013 are as follows:

|                                        | Nine Months Ended |                  |
|----------------------------------------|-------------------|------------------|
|                                        | July 27,<br>2014  | July 28,<br>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         |

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

|                                             | Three Months Ended |                  | Nine Months Ended |                  |
|---------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                             | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| (in thousands)                              |                    |                  |                   |                  |
| Stock-based compensation expense recognized | \$ 1,746           | \$ 4,523         | \$ 12,690         | \$ 16,429        |
| Income tax benefit recognized               | (663)              | (1,710)          | (4,822)           | (6,212)          |
| After-tax stock-based compensation expense  | \$ 1,083           | \$ 2,813         | \$ 7,868          | \$ 10,217        |

At July 27, 2014, there was \$9.6 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 2.7 years. During the third quarter and nine months ended July 27, 2014, cash received from stock option exercises was \$3.0 million and \$8.5 million, respectively, compared to \$0.7 million and \$29.3 million for the third quarter and nine months ended July 28, 2013. The total tax benefit to be realized for tax deductions from these option exercises for the third quarter and nine months ended July 27, 2014, was \$8.9 million and \$21.0 million, respectively, compared to \$1.0 million and \$24.7 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.

**NOTE D      GOODWILL AND INTANGIBLE ASSETS**

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

| (in thousands)               | Grocery<br>Products | Refrigerated<br>Foods | JOTS       | Specialty<br>Foods | International<br>& Other | Total      |
|------------------------------|---------------------|-----------------------|------------|--------------------|--------------------------|------------|
| Balance as of April 27, 2014 | \$ 322,942          | \$ 96,643             | \$ 203,214 | \$ 207,028         | \$ 132,377               | \$ 962,204 |
| Goodwill acquired            | -                   | -                     | -          | -                  | 373                      | 373        |
| Balance as of July 27, 2014  | \$ 322,942          | \$ 96,643             | \$ 203,214 | \$ 207,028         | \$ 132,750               | \$ 962,577 |

| (in thousands)                 | Grocery<br>Products | Refrigerated<br>Foods | JOTS       | Specialty<br>Foods | International<br>& Other | Total      |
|--------------------------------|---------------------|-----------------------|------------|--------------------|--------------------------|------------|
| Balance as of October 27, 2013 | \$ 322,942          | \$ 96,643             | \$ 203,214 | \$ 207,028         | \$ 104,645               | \$ 934,472 |

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|                             |    |         |    |        |    |         |    |         |    |         |    |         |
|-----------------------------|----|---------|----|--------|----|---------|----|---------|----|---------|----|---------|
| Goodwill acquired           |    | -       |    | -      |    | -       |    | -       |    | 28,105  |    | 28,105  |
| Balance as of July 27, 2014 | \$ | 322,942 | \$ | 96,643 | \$ | 203,214 | \$ | 207,028 | \$ | 132,750 | \$ | 962,577 |

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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.

| (in thousands)                    | July 27, 2014         |                          | October 27, 2013      |                          |
|-----------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                   | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer lists/relationships      | \$ 45,940             | \$ (18,035)              | \$ 43,340             | \$ (14,719)              |
| Formulas & recipes                | 17,854                | (15,429)                 | 17,854                | (13,824)                 |
| Proprietary software & technology | 14,820                | (13,162)                 | 14,820                | (12,024)                 |
| Other intangibles                 | 4,746                 | (4,246)                  | 9,386                 | (7,999)                  |
| Foreign currency translation      | -                     | (31)                     | -                     | -                        |
| Total                             | \$ 83,360             | \$ (50,903)              | \$ 85,400             | \$ (48,566)              |

Amortization expense was \$2.3 million and \$6.9 million for the third quarter and nine months ended July 27, 2014, respectively, compared to \$2.4 million and \$7.2 million for the third quarter and nine months ended July 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        | \$ 8,968                       |
| 2015        | 5,590                          |
| 2016        | 3,589                          |
| 2017        | 3,155                          |
| 2018        | 2,912                          |

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

| (in thousands)               | July 27, 2014 |         | October 27, 2013 |         |
|------------------------------|---------------|---------|------------------|---------|
| Brands/tradenames/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

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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:

| <u>(in thousands)</u>  | <b>Segment</b>        | <b>% Owned</b>   | <b>July 27,<br/>2014</b> | <b>October 27,<br/>2013</b> |
|------------------------|-----------------------|------------------|--------------------------|-----------------------------|
| MegaMex Foods, LLC     | Grocery Products      | 50%              | \$ 203,471               | \$ 203,413                  |
| Foreign Joint Ventures | International & Other | Various (26-50%) | 59,665                   | 67,196                      |
| Total                  |                       |                  | \$ 263,136               | \$ 270,609                  |

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Equity in earnings of affiliates consists of the following:

| <u>(in thousands)</u>  | Segment               | Three Months Ended |                  | Nine Months Ended |                  |
|------------------------|-----------------------|--------------------|------------------|-------------------|------------------|
|                        |                       | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| MegaMex Foods, LLC     | Grocery Products      | \$ 2,945           | \$ 976           | \$ 10,002         | \$ 15,620        |
| Foreign Joint Ventures | International & Other | 595                | 370              | 1,860             | 2,763            |
| Total                  |                       | \$ 3,540           | \$ 1,346         | \$ 11,862         | \$ 18,383        |

Dividends received from affiliates were \$9.1 million and \$19.1 million for the three and nine months ended July 27, 2014, respectively, compared to \$14.0 million and \$34.0 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 \$17.2 million is remaining as of July 27, 2014. This difference is being amortized through equity in earnings of affiliates.

**NOTE F EARNINGS PER SHARE DATA**

The following table sets forth the denominator for the computation of basic and diluted earnings per share:

| <u>(in thousands)</u>                       | Three Months Ended |                  | Nine Months Ended |                  |
|---------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                             | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| Basic weighted-average shares outstanding   | 263,983            | 264,605          | 263,887           | 264,472          |
| Dilutive potential common shares            | 6,417              | 6,164            | 6,458             | 5,758            |
| Diluted weighted-average shares outstanding | 270,400            | 270,769          | 270,345           | 270,230          |

For the third quarter and nine months ended July 27 2014, thirty-seven thousand and 0.6 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 one thousand and 0.5 million for the third quarter and nine months ended July 28, 2013.

**NOTE G ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

| <u>(in thousands)</u>               | Foreign<br>Currency<br>Translation | Pension &<br>Other Benefits | Deferred Gain<br>(Loss) -<br>Hedging | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-------------------------------------|------------------------------------|-----------------------------|--------------------------------------|-----------------------------------------------|
| Balance at April 27, 2014           | \$ 7,788                           | \$ (150,994)                | \$ 888                               | \$ (142,318)                                  |
| Unrecognized (losses) gains:        |                                    |                             |                                      |                                               |
| Gross                               | 295                                | -                           | (18,159)                             | (17,864)                                      |
| Tax effect                          | -                                  | -                           | 6,855                                | 6,855                                         |
| Reclassification into net earnings: |                                    |                             |                                      |                                               |
| Gross                               | -                                  | 1,595 (1)                   | 1,028 (2)                            | 2,623                                         |
| Tax effect                          | -                                  | (680)                       | (387)                                | (1,067)                                       |
| Net of tax amount                   | 295                                | 915                         | (10,663)                             | (9,453)                                       |
| Balance at July 27, 2014            | \$ 8,083                           | \$ (150,079)                | \$ (9,775)                           | \$ (151,771)                                  |

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| <u>(in thousands)</u>               | Foreign<br>Currency<br>Translation | Pension &<br>Other Benefits | Deferred Gain<br>(Loss) -<br>Hedging | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-------------------------------------|------------------------------------|-----------------------------|--------------------------------------|-----------------------------------------------|
| Balance at October 27, 2013         | \$ 9,391                           | \$ (153,001)                | \$ (5,604)                           | \$ (149,214)                                  |
| Unrecognized (losses) gains:        |                                    |                             |                                      |                                               |
| Gross                               | (1,308)                            | 38                          | (13,854)                             | (15,124)                                      |
| Tax effect                          | -                                  | (14)                        | 5,231                                | 5,217                                         |
| Reclassification into net earnings: |                                    |                             |                                      |                                               |
| Gross                               | -                                  | 4,793 (1)                   | 7,144 (2)                            | 11,937                                        |
| Tax effect                          | -                                  | (1,895)                     | (2,692)                              | (4,587)                                       |
| Net of tax amount                   | (1,308)                            | 2,922                       | (4,171)                              | (2,557)                                       |
| Balance at July 27, 2014            | \$ 8,083                           | \$ (150,079)                | \$ (9,775)                           | \$ (151,771)                                  |

(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:

| <u>(in thousands)</u>             | July 27,<br>2014 | October 27,<br>2013 |
|-----------------------------------|------------------|---------------------|
| Finished products                 | \$ 627,851       | \$ 544,858          |
| Raw materials and work-in-process | 271,154          | 248,411             |
| Materials and supplies            | 177,887          | 174,708             |
| Total                             | \$ 1,076,892     | \$ 967,977          |

**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.

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**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 July 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:

| Commodity | Volume               |                      |
|-----------|----------------------|----------------------|
|           | July 27, 2014        | October 27, 2013     |
| Corn      | 17.4 million bushels | 14.7 million bushels |

As of July 27, 2014, the Company has included in AOCL, hedging losses of \$15.7 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

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recognize the majority of these losses over the next 12 months. The balance as of July 27, 2014, includes a loss of \$0.2 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 July 27, 2014, and October 27, 2013, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

| Commodity | July 27, 2014       | Volume | October 27, 2013    |
|-----------|---------------------|--------|---------------------|
| Corn      | 7.5 million bushels |        | 5.8 million bushels |
| Lean hogs | 0.7 million cwt     |        | 1.4 million cwt     |

**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 July 27, 2014, and October 27, 2013, the Company had the following outstanding futures contracts related to other programs:

| Commodity | July 27, 2014       | Volume | October 27, 2013    |
|-----------|---------------------|--------|---------------------|
| Corn      | 3.5 million bushels |        | 1.7 million bushels |

|                                              |                                                           | Fair Value (1)     |                    |
|----------------------------------------------|-----------------------------------------------------------|--------------------|--------------------|
|                                              | Location on Consolidated Statements of Financial Position | July 27, 2014      | October 27, 2013   |
| <b><u>Asset Derivatives:</u></b>             |                                                           |                    |                    |
| <b>Derivatives Designated as Hedges:</b>     |                                                           |                    |                    |
| Commodity contracts                          | Other current assets                                      | \$ (42,024)        | \$ (25,802)        |
| <b>Derivatives Not Designated as Hedges:</b> |                                                           |                    |                    |
| Commodity contracts                          | Other current assets                                      | (12,774)           | (3,783)            |
| <b>Total Asset Derivatives</b>               |                                                           | <b>\$ (54,798)</b> | <b>\$ (29,585)</b> |

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

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|                                          |                                                            | Gain/(Loss)<br>Recognized<br>in Earnings (2) |                  |
|------------------------------------------|------------------------------------------------------------|----------------------------------------------|------------------|
| Derivatives Not<br>Designated as Hedges: | Location on<br>Consolidated<br>Statements<br>of Operations | Three Months Ended                           |                  |
|                                          |                                                            | July 27,<br>2014                             | July 28,<br>2013 |
| Commodity contracts                      | Cost of products sold                                      | \$ (2,453)                                   | \$ (266)         |
| Foreign exchange contracts               | Net sales                                                  | \$ (0)                                       | \$ (79)          |

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

|                          | Gain/(Loss)<br>Recognized in<br>AOCL<br>(Effective Portion) |                  | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Reclassified from<br>AOCL into Earnings<br>(Effective Portion) (1)(2) |                  | Gain/(Loss)<br>Recognized in<br>Earnings (Ineffective<br>Portion) (3) (5) |                  |
|--------------------------|-------------------------------------------------------------|------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------|------------------|
|                          | (1)(2)                                                      |                  |                                                            | (1)(2)                                                                               |                  | (3) (5)                                                                   |                  |
|                          | Nine Months Ended                                           |                  |                                                            | Nine Months Ended                                                                    |                  | Nine Months Ended                                                         |                  |
|                          | July 27,<br>2014                                            | July 28,<br>2013 |                                                            | July 27,<br>2014                                                                     | July 28,<br>2013 | July 27,<br>2014                                                          | July 28,<br>2013 |
| <b>Cash Flow Hedges:</b> |                                                             |                  |                                                            |                                                                                      |                  |                                                                           |                  |
| Commodity contracts      | \$ (13,854)                                                 | \$ (18,382)      | Cost of products sold                                      | \$ (7,144)                                                                           | \$ 8,148         | \$ 193                                                                    | \$ (485)         |

|                           | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Recognized in Earnings<br>(Effective Portion) (4)<br>Nine Months Ended |                  | Gain/(Loss)<br>Recognized in<br>Earnings (Ineffective<br>Portion) (3) (6)<br>Nine Months Ended |                  |
|---------------------------|------------------------------------------------------------|---------------------------------------------------------------------------------------|------------------|------------------------------------------------------------------------------------------------|------------------|
|                           |                                                            | Nine Months Ended                                                                     |                  | Nine Months Ended                                                                              |                  |
|                           |                                                            | July 27,<br>2014                                                                      | July 28,<br>2013 | July 27,<br>2014                                                                               | July 28,<br>2013 |
| <b>Fair Value Hedges:</b> |                                                            |                                                                                       |                  |                                                                                                |                  |
| Commodity contracts       | Cost of products sold                                      | \$ (21,320)                                                                           | \$ 4,869         | \$ (209)                                                                                       | \$ 71            |

|                                                  | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Recognized<br>in Earnings (2)<br>Nine Months Ended |                  |
|--------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|------------------|
|                                                  |                                                            | Nine Months Ended                                                 |                  |
|                                                  |                                                            | July 27,<br>2014                                                  | July 28,<br>2013 |
| <b>Derivatives Not<br/>Designated as Hedges:</b> |                                                            |                                                                   |                  |
| Commodity contracts                              | Cost of products sold                                      | \$ (1,764)                                                        | \$ (999)         |
| Foreign exchange contracts                       | Net sales                                                  | \$ (0)                                                            | \$ (79)          |

- (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 \$0.2 million (before tax) remaining as of July 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 third quarter or first nine months of fiscal years 2014 and 2013.
- (4) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the third quarter or first nine 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 third quarter or first nine 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 third quarter or first nine months of fiscal years 2014 and 2013.

**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

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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 July 27, 2014, and October 27, 2013, and their level within the fair value hierarchy, are presented in the tables below.

|                                        |                   | Fair Value Measurements at July 27, 2014                                   |                                                           |                                                    |
|----------------------------------------|-------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>(in thousands)</u>                  |                   |                                                                            |                                                           |                                                    |
| <b>Assets at Fair Value:</b>           |                   |                                                                            |                                                           |                                                    |
| Cash and cash equivalents (1)          | \$ 530,977        | \$ 530,977                                                                 | \$ -                                                      | \$ -                                               |
| Other trading securities (2)           | 117,323           | 39,768                                                                     | 77,555                                                    | -                                                  |
| Commodity derivatives (3)              | 6,013             | 6,013                                                                      | -                                                         | -                                                  |
| <b>Total Assets at Fair Value</b>      | <b>\$ 654,313</b> | <b>\$ 576,758</b>                                                          | <b>\$ 77,555</b>                                          | <b>\$ -</b>                                        |
| <b>Liabilities at Fair Value:</b>      |                   |                                                                            |                                                           |                                                    |
| Deferred compensation (2)              | \$ 52,761         | \$ 22,513                                                                  | \$ 30,248                                                 | \$ -                                               |
| <b>Total Liabilities at Fair Value</b> | <b>\$ 52,761</b>  | <b>\$ 22,513</b>                                                           | <b>\$ 30,248</b>                                          | <b>\$ -</b>                                        |

|                                        |                   | Fair Value Measurements at October 27, 2013                                |                                                           |                                                    |
|----------------------------------------|-------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>(in thousands)</u>                  |                   |                                                                            |                                                           |                                                    |
| <b>Assets at Fair Value:</b>           |                   |                                                                            |                                                           |                                                    |
| 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                                                                      | -                                                         | -                                                  |
| <b>Total Assets at Fair Value</b>      | <b>\$ 554,400</b> | <b>\$ 478,589</b>                                                          | <b>\$ 75,811</b>                                          | <b>\$ -</b>                                        |
| <b>Liabilities at Fair Value:</b>      |                   |                                                                            |                                                           |                                                    |
| Deferred compensation (2)              | \$ 52,771         | \$ 21,257                                                                  | \$ 31,514                                                 | \$ -                                               |
| <b>Total Liabilities at Fair Value</b> | <b>\$ 52,771</b>  | <b>\$ 21,257</b>                                                           | <b>\$ 31,514</b>                                          | <b>\$ -</b>                                        |

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

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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 July 27, 2014, the Company has recognized the right to reclaim cash collateral of \$60.8 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 \$275.0 million as of July 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 nine months ended July 27, 2014, and July 28, 2013, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

**NOTE K PENSION AND OTHER POST-RETIREMENT BENEFITS**

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

| (in thousands) | Pension Benefits   |               |                   |               |
|----------------|--------------------|---------------|-------------------|---------------|
|                | Three Months Ended |               | Nine Months Ended |               |
|                | July 27, 2014      | July 28, 2013 | July 27, 2014     | July 28, 2013 |
| Service cost   | \$ 6,477           | \$ 7,744      | \$ 19,457         | \$ 23,234     |

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|                                      |          |    |          |    |          |    |          |
|--------------------------------------|----------|----|----------|----|----------|----|----------|
| Interest cost                        | 13,219   |    | 11,922   |    | 39,812   |    | 35,766   |
| Expected return on plan assets       | (20,863) |    | (18,286) |    | (62,840) |    | (54,858) |
| Amortization of prior service credit | (1,242)  |    | (1,269)  |    | (3,728)  |    | (3,809)  |
| Recognized actuarial loss            | 3,172    |    | 8,505    |    | 9,525    |    | 25,514   |
| Net periodic cost                    | \$ 763   | \$ | 8,616    | \$ | 2,226    | \$ | 25,847   |

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| <u>(in thousands)</u>                | <b>Three Months Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|--------------------------------------|---------------------------|----------------------|--------------------------|----------------------|
|                                      | <b>July 27, 2014</b>      | <b>July 28, 2013</b> | <b>July 27, 2014</b>     | <b>July 28, 2013</b> |
| Service cost                         | \$ 484                    | \$ 612               | \$ 1,450                 | \$ 1,836             |
| Interest cost                        | 3,785                     | 3,693                | 11,356                   | 11,081               |
| Amortization of prior service credit | (334)                     | (401)                | (1,002)                  | (999)                |
| Recognized actuarial (gain) loss     | (1)                       | 1,982                | (2)                      | 5,807                |
| Net periodic cost                    | \$ 3,934                  | \$ 5,886             | \$ 11,802                | \$ 17,725            |

During the third quarter of fiscal 2014, the Company made discretionary contributions of \$25.6 million to fund its pension plans, compared to discretionary contributions of \$22.1 million during the third quarter of fiscal 2013.

**NOTE L INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at July 27, 2014, recorded in other long-term liabilities was \$26.0 million, of which \$17.2 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 \$(20) thousand and \$0.3 million included in (income) expense in the third quarter and first nine months, respectively, of fiscal 2014. The amount of accrued interest and penalties at July 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. Over the next 12 months, the Company anticipates adopting changes to policies governing the release of unrecognized tax benefits. The adoption of such policies will result in a decrease to unrecognized tax benefits. However, prior to the adoption of such policies, it is not possible to reasonably estimate the effect of such a policy change on the amount of unrecognized tax benefits.

**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 Saags 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.

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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.

| (in thousands)                         | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------------------|--------------------|------------------|-------------------|------------------|
|                                        | July 27,<br>2014   | July 28,<br>2013 | July 27,<br>2014  | July 28,<br>2013 |
| <b>Sales to Unaffiliated Customers</b> |                    |                  |                   |                  |
| Grocery Products                       | \$ 359,549         | \$ 370,297       | \$ 1,153,099      | \$ 1,097,942     |
| Refrigerated Foods                     | 1,192,624          | 1,068,587        | 3,432,289         | 3,143,358        |
| Jennie-O Turkey Store                  | 382,647            | 367,125          | 1,162,472         | 1,142,198        |
| Specialty Foods                        | 216,406            | 240,512          | 629,561           | 720,048          |
| International & Other                  | 133,721            | 113,004          | 395,064           | 324,906          |
| Total                                  | \$ 2,284,947       | \$ 2,159,525     | \$ 6,772,485      | \$ 6,428,452     |
| <b>Intersegment Sales</b>              |                    |                  |                   |                  |
| Grocery Products                       | \$ -               | \$ -             | \$ -              | \$ -             |
| Refrigerated Foods                     | 3,451              | 4,654            | 15,798            | 10,393           |
| Jennie-O Turkey Store                  | 35,128             | 29,559           | 105,127           | 89,542           |
| Specialty Foods                        | 47                 | 23               | 99                | 76               |
| International & Other                  | -                  | -                | -                 | -                |
| Total                                  | \$ 38,626          | \$ 34,236        | \$ 121,024        | \$ 100,011       |
| Intersegment elimination               | (38,626)           | (34,236)         | (121,024)         | (100,011)        |
| Total                                  | \$ -               | \$ -             | \$ -              | \$ -             |
| <b>Net Sales</b>                       |                    |                  |                   |                  |
| Grocery Products                       | \$ 359,549         | \$ 370,297       | \$ 1,153,099      | \$ 1,097,942     |
| Refrigerated Foods                     | 1,196,075          | 1,073,241        | 3,448,087         | 3,153,751        |

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|                          |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|
| Jennie-O Turkey Store    | 417,775      | 396,684      | 1,267,599    | 1,231,740    |
| Specialty Foods          | 216,453      | 240,535      | 629,660      | 720,124      |
| International & Other    | 133,721      | 113,004      | 395,064      | 324,906      |
| Intersegment elimination | (38,626)     | (34,236)     | (121,024)    | (100,011)    |
| Total                    | \$ 2,284,947 | \$ 2,159,525 | \$ 6,772,485 | \$ 6,428,452 |

Table of Contents**Segment Operating Profit**

|                                              |    |         |    |         |    |         |    |         |
|----------------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Grocery Products                             | \$ | 33,781  | \$ | 52,962  | \$ | 145,013 | \$ | 150,170 |
| Refrigerated Foods                           |    | 90,028  |    | 44,769  |    | 250,724 |    | 153,239 |
| Jennie-O Turkey Store                        |    | 64,756  |    | 45,623  |    | 177,109 |    | 156,567 |
| Specialty Foods                              |    | 17,378  |    | 23,170  |    | 57,767  |    | 72,898  |
| International & Other                        |    | 18,696  |    | 16,692  |    | 62,116  |    | 49,421  |
| Total segment operating profit               | \$ | 224,639 | \$ | 183,216 | \$ | 692,729 | \$ | 582,295 |
| Net interest and investment expense (income) |    | 1,522   |    | 3,577   |    | 6,842   |    | 6,887   |
| General corporate expense                    |    | 11,174  |    | 2,833   |    | 27,242  |    | 19,228  |
| Noncontrolling interest                      |    | 1,039   |    | 270     |    | 2,765   |    | 2,720   |
| Earnings before income taxes                 | \$ | 212,982 | \$ | 177,076 | \$ | 661,410 | \$ | 558,900 |

**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 third quarter of fiscal 2014, the Company reported net earnings per diluted share of \$0.51, an increase of 21.4 percent compared to \$0.42 per diluted share in the third quarter of fiscal 2013. Significant factors impacting the third quarter of fiscal 2014 were:

- Record sales and profits, with three of the Company's five reporting segments generating growth.

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- Refrigerated Foods delivered a robust quarter, driven by favorable pork operating margins and growth of retail and foodservice value-added products.
- Profitability rose for Jennie-O Turkey Store on increased sales of value-added products along with strong commodity turkey prices.
- The International & Other segment delivered a solid quarter driven by strong growth in China pork foodservice sales along with the addition of the *SKIPPY* peanut butter business in China.
- Grocery Products profits decreased for the quarter, as unusually high input costs and related pricing actions taken earlier in the year negatively impacted margins.
- 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 third quarter of fiscal 2014 increased 21.4 percent to \$138.0 million compared to \$113.6 million in the same quarter of fiscal 2013. Diluted earnings per share for the third quarter increased to \$0.51 from \$0.42 last year. Net earnings attributable to the Company for the first nine months of fiscal 2014 increased 17.0 percent to \$431.4 million, from \$368.9 million for the first nine months of fiscal 2013. Diluted earnings per share for the nine months were \$1.60 for fiscal 2014 compared to \$1.37 in fiscal 2013.

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Net sales for the third quarter of fiscal 2014 increased 5.8 percent to a record \$2.28 billion, versus \$2.16 billion in fiscal 2013. Tonnage decreased 1.4 percent to 1.17 billion lbs. for the third quarter compared to 1.19 billion lbs. for the same quarter of last year. Net sales for the first nine months of fiscal 2014 increased 5.4 percent to a record \$6.77 billion from \$6.43 billion in fiscal 2013. Tonnage for the first nine months decreased 0.1 percent to 3.66 billion lbs. compared to 3.67 billion lbs. in 2013.

Value-added sales growth within the Refrigerated Foods and Jennie-O Turkey Store segments drove top-line gains in the third quarter. In addition, strong sales from the Company's China foodservice operations along with the addition of the Mainland China *SKIPPY* peanut butter sales for the International & Other segment were also key drivers of the increase in third quarter 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 \$104.7 million of net sales and 67.8 million lbs. for the first nine months comparison, primarily in the Grocery Products and International & Other segments.

Gross profit for the third quarter and first nine months of fiscal 2014 was \$364.0 million and \$1.14 billion, respectively, compared to \$330.3 million and \$1.03 billion for the same periods last year. Gross profit as a percentage of net sales for the third quarter and first nine months of fiscal 2014 was 15.9 percent and 16.9 percent, respectively, versus 15.3 percent and 16.0 percent for the comparable periods in the prior year. Favorable margins in the Refrigerated Foods, Jennie-O Turkey Store, and International & Other segments more than offset lower margins in the Grocery Products and Specialty Foods segments. Beneficial pork operating margins and growth of retail and foodservice value-added products within the Refrigerated Foods segment drove overall profit gains. Additionally, value-added sales growth, strong turkey commodity pricing, and favorable grain input costs benefitted Jennie-O Turkey Store, and strong China foodservice sales for the International & Other segment further enhanced margin gains. The additional margins from the China based *SKIPPY* sales also boosted margins for the International & Other segment. Unusually high beef, pork, chicken, and avocado costs negatively impacted margins and drove lower results in the Grocery Products segment. 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 rose in four of the Company's five segments for the first nine months of fiscal 2014.

Entering the fourth quarter, the Company expects elevated meat input costs to continue to squeeze margins on certain value-added products, especially in the Grocery Products segment. Pork operating margins are anticipated to remain seasonably positive as hog costs begin to moderate with better supply, but difficult comparisons to last year will minimize this benefit for the Refrigerated Foods segment. In addition, the Jennie-O Turkey Store segment is expected to finish the year strong with value-added sales growth, continued high turkey commodity prices, and beneficial grain markets. Specialty Foods has lapped the expiration of its sugar substitute contract and should return to year-over-year growth in the fourth quarter. Results from newly acquired CytoSport Holdings will also be included in the fourth quarter, increasing revenues for the segment, but not materially impacting earnings net of acquisition closing costs. Continued growth in the International & Other segment led by the Company's China operations and the *SKIPPY* peanut butter export business will be partially offset by high U.S. meat input costs, impacting exports.

Selling, general and administrative expenses for the third quarter and nine months of fiscal 2014 were \$153.0 million and \$485.0 million, respectively, compared to \$151.0 million and \$479.9 million last year. Selling, general and administrative expenses as a percentage of net sales was 6.7 percent and 7.2 percent for the third quarter and first nine months of fiscal 2014, respectively, compared to 7.0 percent and 7.5 percent for the comparable periods of the prior year. For the third quarter, corporate expenses were higher reflecting a bad debt write-off and increased employee-related expenses. Higher advertising and marketing expenses for the first nine 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 the *SPAM* family of products. The Company expects selling, general and administrative expenses to be approximately 7.1 to 7.3 percent of net sales for the full year in fiscal 2014.



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Equity in earnings of affiliates was \$3.5 million and \$11.9 million for the third quarter and first nine months of fiscal 2014, respectively, compared to \$1.3 million and \$18.4 million last year. The increase for the third quarter is largely due to the improved performance at our MegaMex Foods joint venture.

The effective tax rate for the third quarter and first nine months of fiscal 2014 was 34.7 and 34.4 percent, respectively, compared to 35.7 and 33.5 percent for the comparable quarter and first nine months of fiscal 2013. The 2014 third quarter rate was lower due to net favorable provision to return changes in estimates upon filing the 2013 income tax returns relative to the prior year. The rate for the first nine months of fiscal 2014 is higher predominantly due to state income taxes. The Company expects a full-year effective tax rate of approximately 34.5 percent for fiscal 2014.

**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.

| (in thousands)                               | Three Months Ended |                  |             | Nine Months Ended |                  |             |
|----------------------------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
|                                              | July 27,<br>2014   | July 28,<br>2013 | %<br>Change | July 27,<br>2014  | July 28,<br>2013 | %<br>Change |
| <b>Net Sales</b>                             |                    |                  |             |                   |                  |             |
| Grocery Products                             | \$ 359,549         | \$ 370,297       | (2.9)       | \$ 1,153,099      | \$ 1,097,942     | 5.0         |
| Refrigerated Foods                           | 1,192,624          | 1,068,587        | 11.6        | 3,432,289         | 3,143,358        | 9.2         |
| Jennie-O Turkey Store                        | 382,647            | 367,125          | 4.2         | 1,162,472         | 1,142,198        | 1.8         |
| Specialty Foods                              | 216,406            | 240,512          | (10.0)      | 629,561           | 720,048          | (12.6)      |
| International & Other                        | 133,721            | 113,004          | 18.3        | 395,064           | 324,906          | 21.6        |
| Total                                        | \$ 2,284,947       | \$ 2,159,525     | 5.8         | \$ 6,772,485      | \$ 6,428,452     | 5.4         |
| <b>Segment Operating Profit</b>              |                    |                  |             |                   |                  |             |
| Grocery Products                             | \$ 33,781          | \$ 52,962        | (36.2)      | \$ 145,013        | \$ 150,170       | (3.4)       |
| Refrigerated Foods                           | 90,028             | 44,769           | 101.1       | 250,724           | 153,239          | 63.6        |
| Jennie-O Turkey Store                        | 64,756             | 45,623           | 41.9        | 177,109           | 156,567          | 13.1        |
| Specialty Foods                              | 17,378             | 23,170           | (25.0)      | 57,767            | 72,898           | (20.8)      |
| International & Other                        | 18,696             | 16,692           | 12.0        | 62,116            | 49,421           | 25.7        |
| Total segment operating profit               | \$ 224,639         | \$ 183,216       | 22.6        | \$ 692,729        | \$ 582,295       | 19.0        |
| Net interest and investment expense (income) | 1,522              | 3,577            | (57.5)      | 6,842             | 6,887            | (0.7)       |

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|                              |            |            |       |            |            |      |
|------------------------------|------------|------------|-------|------------|------------|------|
| General corporate expense    | 11,174     | 2,833      | 294.4 | 27,242     | 19,228     | 41.7 |
| Noncontrolling interest      | 1,039      | 270        | 284.8 | 2,765      | 2,720      | 1.7  |
| Earnings before income taxes | \$ 212,982 | \$ 177,076 | 20.3  | \$ 661,410 | \$ 558,900 | 18.3 |

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**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 Foods joint venture.

Grocery Products net sales decreased 2.9 percent and increased 5.0 percent for the third quarter and nine months of fiscal 2014, respectively, compared to the same fiscal 2013 periods. Tonnage decreased 3.5 percent for the third quarter and increased 6.5 percent for the first nine months compared to the prior year. The comparative results for the first nine 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 nine months.

Top-line performance for Grocery Products in the third quarter was negatively impacted by the price increases taken earlier in the year to offset rising input costs. Lower sales were observed for the *SPAM* family of products, *Hormel* chili and hash, *Hormel Compleats* line of microwave meals, and *Dinty Moore* stew. These offset sales gains in *Hormel* bacon toppings and the *Herdez* line of salsas and sauces within our MegaMex Foods joint venture, with volume growth also enjoyed from *SKIPPY* peanut butter.

Segment profit for Grocery Products decreased 36.2 percent for the third quarter and decreased 3.4 percent for the first nine months compared to fiscal 2013. Profit results for the third quarter were challenged by higher pork and beef input costs, along with higher avocado costs. In addition, transaction and transition costs related to the *SKIPPY* acquisition in fiscal 2013 impacted last year's results and the year-over-year profit comparisons for the first nine months of fiscal 2014. Equity in earnings from the Company's MegaMex Foods joint venture exceeded last year as last year's results were negatively impacted by a higher incentive expense on the Fresherized Foods acquisition.

The Company anticipates continued margin pressures for Grocery Products entering the fourth quarter. Pricing actions taken earlier in the year will partially offset these cost pressures. During the back-to-school season this fall, the Company will build on the momentum of the *SKIPPY* peanut butter brand with national advertising after many years off air.

**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 11.6 percent and 9.2 percent, respectively, for the third quarter and first nine months of fiscal 2014, compared to the same periods of fiscal 2013. Tonnage increased 0.2 percent for the third quarter and decreased 0.4 percent for the

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first nine months compared to the prior year. On the retail side, sales gains within the Meat Products business unit were led by sales of *Black Label* bacon, *Hormel REV* snack wraps, and *Lloyd's* ribs. Within the Foodservice business unit, sales of *Hormel Fire Braised* meats and *Hormel* fully cooked sausage experienced gains for the quarter. Sales results were further enhanced with sales of the new *Hormel Bacon 1* fully cooked bacon in the quarter. Continued internal utilization of raw materials in the Company's value-added products along with higher pricing on key retail items to mitigate margin exposure impacted volume comparisons. In addition, the number of hogs through the Company's harvest facilities was reduced in the third quarter as the Company adjusted harvest schedules in response to the impact of the Porcine Epidemic Diarrhea Virus (PEDv) on hog supply.

Segment profit for Refrigerated Foods increased 101.1 percent and 63.6 percent for the third quarter and first nine months of fiscal 2014, respectively, compared to the prior year. The large increase was driven by beneficial pork operating margins, which were stronger than expected, and growth of retail and foodservice value-added sales.

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The Company expects pork operating margins to remain seasonably positive going into the fourth quarter, as hog costs begin to moderate with better supply, but difficult comparisons to last year will minimize this benefit for the Refrigerated Foods segment. Volume through the Company's harvest facilities has returned to a normalized schedule and will continue through the remainder of the fiscal year. The Company launched distribution in the third quarter of *Hormel REV a.m.* breakfast wraps, which are expected to enhance sales in the fourth quarter.

**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 increased 4.2 percent and 1.8 percent for the third quarter and first nine months of fiscal 2014, respectively, versus the comparable periods of fiscal 2013. Tonnage decreased 2.2 percent and 2.5 percent, respectively for the third quarter and first nine months, compared to prior year results. Value-added sales growth was led by retail sales of *Jennie-O Turkey Store* ground turkey items, which continued to benefit from the "Make the Switch" advertising campaign featuring turkey tacos. High turkey commodity prices more than offset lower volumes driven by the timing of whole bird sales in the retail channel.

Segment profit for JOTS increased 41.9 percent and 13.1 percent, respectively, for the third quarter and first nine months of fiscal 2014, compared to the prior year. Improved segment profit was driven by value-added sales growth, strong turkey commodity pricing, and improved operational efficiencies. The last of the flocks impacted by the harsh winter weather and elevated fuel costs moved through the system during the third quarter.

The Company expects JOTS to finish the year strong with value-added sales growth, continued high turkey commodity prices, and beneficial grain markets.

**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 various sugar and sugar substitute products, salt and pepper products, liquid portion products, dessert mixes, ready-to-drink products, sports nutrition products, gelatin products, and private label canned meats to 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.

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Specialty Foods net sales decreased 10.0 percent for the third quarter and 12.6 percent for the first nine months of fiscal 2014, compared to the same periods of fiscal 2013. Tonnage decreased 8.9 percent for the third quarter and 10.9 percent for the first nine months compared to the prior year. Continued sales declines were driven by the expiration of the agreement allowing DCB to sell certain sugar substitutes into foodservice trade channels in addition to softer ready-to-drink sales at CFI. These declines were partially offset by strong sales of nutritional products at CFI along with stronger ingredient and canned meat sales from HSP.

Specialty Foods segment profit decreased 25.0 percent in the third quarter and 20.8 percent for the first nine months, compared to fiscal 2013 results. The shortfall was primarily driven by the expiration of the sugar substitute agreement noted above. Stronger nutritional and blended margins along with lower shipping, handling, and SG&A expenses at DCB partially offset that decline. In addition, HSP benefitted from lower raw material costs and the aforementioned ingredients sales gain.

The Company expects fourth quarter results for Specialty Foods to exceed last year as the loss of the sugar substitute agreement has been lapped. The fourth quarter will include the addition of CytoSport sales, but the benefit of that business will be offset with the acquisition closing costs.

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**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. This segment was previously the All Other segment, and was renamed in the second quarter of fiscal 2013 with no change in the composition of the segment.

International & Other net sales increased 18.3 percent and 21.6 percent for the third quarter and first nine months of fiscal 2014, respectively, compared to fiscal 2013. Robust sales for the Company's China operations, strong pork export sales, and the addition of Mainland China *SKIPPY* sales were the primary drivers of the top-line results for the third quarter. The combined *SKIPPY* business, including the United States based business acquired at the beginning of the second quarter of fiscal 2013, contributed an incremental \$30.1 million of net sales and 17.9 million lbs. for the first nine months comparison.

Segment profit also increased, up 12.0 percent for the third quarter and 25.7 percent for the first nine months of fiscal 2014, compared to fiscal 2013 results. The improved bottom-line results were primarily attributable to strong foodservice margins in China and higher royalty results which offset lower margins on exports of the *SPAM* family of products.

The Company expects continued strong results for HFI in the fourth quarter, as China results and royalties will drive performance over last year. Additionally, China based *SKIPPY* sales will continue to have a positive impact on profit for the remainder of the year. Higher input costs will continue to compress margins for the *SPAM* family of products and cause 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 third quarter and first nine months of fiscal 2014 represented a net expense of \$1.5 million and \$6.8 million, respectively, compared to a net expense of \$3.6 million and \$6.9 million for the comparable quarter and nine months of fiscal 2013. The lower net expense for the third quarter was due to improved returns on the Company's rabbi trust for supplemental executive retirement plans. Interest expense of \$9.3 million for the first nine months of fiscal 2014 has decreased from \$9.4 million in the prior year, and the Company expects interest expense to be about \$12.0 to \$14.0 million for the full year in fiscal 2014.

General corporate expense for the third quarter and first nine months of fiscal 2014 was \$11.2 million and \$27.2 million, respectively, compared to \$2.8 million and \$19.2 million for the comparable periods of fiscal 2013. General corporate expense was higher during the third quarter compared to last year, with the increase primarily the result of a bad debt incurred in the third quarter along with increased employee related and

medical expenses.

Net earnings attributable to the Company's noncontrolling interests were \$1.0 million and \$2.8 million for the third quarter and first nine months of fiscal 2014, respectively, compared to \$0.3 million and \$2.7 million for the comparable periods of fiscal 2013. The increased earnings for the third quarter reflects higher overall results from the Company's noncontrolling interests.

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**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 \$531.0 million at the end of the third quarter of fiscal year 2014 compared to \$329.5 million at the end of the comparable fiscal 2013 period.

Cash provided by operating activities was \$394.4 million in the first nine months of fiscal 2014 compared to \$428.8 million in the same period of fiscal 2013. Unfavorable overall changes in working capital balances primarily due to the overall impact of input values on inventory, compared to the prior year largely generated the decrease. Additionally, the Company made a discretionary contribution of \$25.6 million in the third quarter of fiscal 2014 to fund its pension plans, compared to a contribution of \$22.1 million in the third quarter of fiscal 2013.

Cash used in investing activities was \$144.2 million in the first nine months of fiscal 2014, compared to \$654.9 million in the same period of fiscal 2013. The first nine months of fiscal 2014 included \$41.9 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 nine 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 nine months of fiscal 2014 have increased to \$111.8 million from \$106.8 million in the comparable nine months of fiscal 2013. The Company currently estimates its fiscal 2014 capital expenditures will be approximately \$150.0 million.

Cash used in financing activities was \$152.1 million in the first nine months of fiscal 2014 compared to \$126.9 million in the same period of fiscal 2013. The Company used \$28.1 million for common stock repurchases in the first nine months of fiscal 2014, compared to \$45.7 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 nine months of fiscal 2014 were \$150.4 million compared to \$129.4 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 344 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 third quarter of fiscal 2014, the Company was in compliance with all of these debt covenants.

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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 for in fiscal 2014. A strong balance sheet continues to leave the Company well positioned to take advantage of strategic acquisition opportunities. Capital spending to enhance and expand current operations is also expected to continue throughout the remainder of the fiscal 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

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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 July 27, 2014, was \$26.0 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 July 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 worker's 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 worker's compensation claims. Letters of credit are not reflected in the Company's Consolidated Statements of Financial Position.

**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, estimate, or 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.

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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 95 percent and 98 percent of the total hogs purchased by the Company during the first nine 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 July 27, 2014, was \$(7.4) 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 July 27, 2014, open contracts by \$7.3 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 loss of \$(14.3) million, before tax, on the Consolidated Statements of Financial Position as of July 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 July 27, 2014, open grain contracts by \$6.8 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 \$4.3 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 July 27, 2014, the balance of these securities totaled \$117.3 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 associated

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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 \$4.0 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 third 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:

- i food spoilage;
- i food contamination caused by disease-producing organisms or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and pathogenic *E coli*;
- i food allergens;
- i nutritional and health-related concerns;
- i federal, state, and local food processing controls;
- i consumer product liability claims;
- i product tampering; and
- i 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:

i 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

i 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, peanuts, and whey 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, peanuts, and whey 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 reduced the number of hogs through the Company's harvest facilities in the third quarter 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, peanut butter, and whey. The bases on which the Company competes include:

- i price;
- i product quality and attributes;
- i brand identification;
- i breadth of product line; and
- i 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 CytoSport Holdings, Inc., 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 or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur

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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 July 27, 2014, the Company had approximately 20,200 employees worldwide, of which approximately 5,500 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 Third Quarter of Fiscal 2014

| Period         | Total<br>Number of<br>Shares<br>Purchased <sup>1</sup> | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs <sup>2</sup> | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs <sup>2</sup> |
|----------------|--------------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| April 28, 2014 |                                                        |                                    |                                                                                                           |                                                                                                         |
| June 1, 2014   | 26,500                                                 | \$ 46.93                           | 26,500                                                                                                    | 9,093,600                                                                                               |
| June 2, 2014   | 180,009                                                | 48.91                              | 180,000                                                                                                   | 8,913,600                                                                                               |

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June 29, 2014  
June 30, 2014

|               |         |    |       |         |           |
|---------------|---------|----|-------|---------|-----------|
| July 27, 2014 | 60,009  |    | 48.24 | 60,000  | 8,853,600 |
| Total         | 266,518 | \$ | 48.56 | 266,500 |           |

<sup>1</sup>The 18 shares repurchased during the third quarter, other than through publicly announced plans or programs, represent purchases for a Company employee award program.

<sup>2</sup>On 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**

- 2.1 Agreement and Plan of Merger between Hormel Foods Corporation, Mustang Merger Sub Inc., CytoSport Holdings, Inc., and Shareholder Representative Services LLC dated as of June 30, 2014 (Exhibits identified in the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished to the Commission upon request.)
- 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: September 5, 2014

By /s/ JODY H. FERAGEN  
JODY H. FERAGEN  
Executive Vice President, Chief Financial Officer,  
and Director  
(Principal Financial Officer)

Date: September 5, 2014

By /s/ JAMES N. SHEEHAN  
JAMES N. SHEEHAN  
Vice President and Controller  
(Principal Accounting Officer)