

HORMEL FOODS CORP /DE/  
Form 10-Q  
September 04, 2015  
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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 26, 2015

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 30, 2015	
Common Stock	\$.0293 par value	264,516,878
Common Stock Non-Voting	\$.01 par value	-0-

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(in thousands, except share and per share amounts)

	<b>July 26, 2015</b>		<b>October 26, 2014</b>
	(Unaudited)		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 349,169	\$	334,174
Accounts receivable	549,056		609,526
Inventories	984,452		1,054,552
Income taxes receivable	15,466		25,678
Deferred income taxes	81,407		86,853
Prepaid expenses	17,376		15,250
Other current assets	6,850		6,738
<b>TOTAL CURRENT ASSETS</b>	<b>2,003,776</b>		<b>2,132,771</b>
<b>GOODWILL</b>	<b>1,978,907</b>		<b>1,226,406</b>
<b>OTHER INTANGIBLES</b>	<b>548,967</b>		<b>554,890</b>
<b>PENSION ASSETS</b>	<b>166,743</b>		<b>130,284</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>245,618</b>		<b>264,451</b>
<b>OTHER ASSETS</b>	<b>145,260</b>		<b>145,050</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land	70,950		61,809
Buildings	815,111		803,722
Equipment	1,678,830		1,597,044
Construction in progress	63,876		119,657
	2,628,767		2,582,232
Less allowance for depreciation	(1,626,957)		(1,580,465)
	1,001,810		1,001,767
<b>TOTAL ASSETS</b>	<b>\$ 6,091,081</b>	\$	<b>5,455,619</b>

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)

	<b>July 26, 2015</b>		<b>October 26, 2014</b>
	(Unaudited)		
<b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 393,795	\$	484,042
Short-term debt	350,000		-
Accrued expenses	64,212		76,836
Accrued workers compensation	38,608		35,406
Accrued marketing expenses	125,146		89,561
Employee related expenses	197,304		209,874
Taxes payable	6,812		5,507
Interest and dividends payable	69,230		53,466
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,245,107</b>		<b>954,692</b>
LONG-TERM DEBT less current maturities	250,000		250,000
PENSION AND POST-RETIREMENT BENEFITS	508,667		502,693
OTHER LONG-TERM LIABILITIES	110,713		112,176
DEFERRED INCOME TAXES	40,582		24,002
<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; issued 264,322,372 shares July 26, 2015			
issued 263,613,201 shares October 26, 2014	7,745		7,724
Additional paid-in capital	10,318		-
Accumulated other comprehensive loss	(191,843)		(207,700)
Retained earnings	4,106,566		3,805,654
<b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>	<b>3,932,786</b>		<b>3,605,678</b>
NONCONTROLLING INTEREST	3,226		6,378
<b>TOTAL SHAREHOLDERS INVESTMENT</b>	<b>3,936,012</b>		<b>3,612,056</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>	<b>\$ 6,091,081</b>	<b>\$</b>	<b>5,455,619</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 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
Net sales	\$ 2,188,587	\$ 2,284,947	\$ 6,863,005	\$ 6,772,485
Cost of products sold	1,779,197	1,920,948	5,549,454	5,631,086
<b>GROSS PROFIT</b>	<b>409,390</b>	<b>363,999</b>	<b>1,313,551</b>	<b>1,141,399</b>
Selling, general and administrative	184,627	153,035	554,659	485,009
Equity in earnings of affiliates	6,396	3,540	15,930	11,862
<b>OPERATING INCOME</b>	<b>231,159</b>	<b>214,504</b>	<b>774,822</b>	<b>668,252</b>
Other income and expense:				
Interest and investment income	189	1,603	2,455	2,470
Interest expense	(3,129)	(3,125)	(9,290)	(9,312)
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>228,219</b>	<b>212,982</b>	<b>767,987</b>	<b>661,410</b>
Provision for income taxes	81,263	73,968	268,166	227,232
<b>NET EARNINGS</b>	<b>146,956</b>	<b>139,014</b>	<b>499,821</b>	<b>434,178</b>
Less: Net earnings attributable to noncontrolling interest	18	1,039	964	2,765
<b>NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 146,938</b>	<b>\$ 137,975</b>	<b>\$ 498,857</b>	<b>\$ 431,413</b>
<b>NET EARNINGS PER SHARE:</b>				
BASIC	\$ 0.56	\$ 0.52	\$ 1.89	\$ 1.63
DILUTED	\$ 0.54	\$ 0.51	\$ 1.85	\$ 1.60
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
BASIC	264,258	263,983	263,987	263,887
DILUTED	270,602	270,400	270,369	270,345
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$ 0.25</b>	<b>\$ 0.20</b>	<b>\$ 0.75</b>	<b>\$ 0.60</b>

See Notes to Consolidated Financial Statements





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	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
NET EARNINGS	\$ 146,956	\$ 139,014	\$ 499,821	\$ 434,178
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(1,133)	305	(955)	(1,335)
Pension and other benefits	1,904	915	5,706	2,922
Deferred hedging	7,168	(10,663)	10,725	(4,171)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>7,939</b>	<b>(9,443)</b>	<b>15,476</b>	<b>(2,584)</b>
<b>COMPREHENSIVE INCOME</b>	<b>154,895</b>	<b>129,571</b>	<b>515,297</b>	<b>431,594</b>
Less: Comprehensive income attributable to noncontrolling interest	43	1,049	978	2,738
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 154,852</b>	<b>\$ 128,522</b>	<b>\$ 514,319</b>	<b>\$ 428,856</b>

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						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total Shareholders Investment
Balance at October 27, 2013	\$ 7,725	\$ -	\$ -	\$ 3,452,529	\$ (149,214)	\$ 5,539	\$ 3,316,579
Net earnings				602,677		3,349	606,026
Other comprehensive loss					(58,486)	(10)	(58,496)
Purchases of common stock		(58,937)					(58,937)
Stock-based compensation expense	1		14,392				14,393
Exercise of stock options/nonvested shares	35		6,068				6,103
Shares retired	(37)	58,937	(20,460)	(38,440)			-
Distribution to noncontrolling interest						(2,500)	(2,500)
Declared cash dividends \$ .80 per share				(211,112)			(211,112)
Balance at October 26, 2014	\$ 7,724	\$ -	\$ -	\$ 3,805,654	\$ (207,700)	\$ 6,378	\$ 3,612,056
Net earnings				498,857		964	499,821
Other comprehensive income (loss)					15,462	14	15,476
Stock-based compensation expense	1		14,259				14,260
Exercise of stock options/nonvested shares	20		7,940				7,960
Purchase of additional ownership from noncontrolling interest			(11,881)		395	(2,549)	(14,035)
Distribution to noncontrolling interest						(1,581)	(1,581)
Declared cash dividends \$ .75 per share				(197,945)			(197,945)
Balance at July 26, 2015	\$ 7,745	\$ -	\$ 10,318	\$ 4,106,566	\$ (191,843)	\$ 3,226	\$ 3,936,012

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 26, 2015</b>	<b>July 27, 2014</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 499,821	\$ 434,178
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	92,842	90,189
Amortization of intangibles	6,185	6,945
Equity in earnings of affiliates, net of dividends	21,395	7,279
Provision for deferred income taxes	9,619	2,382
Gain on property/equipment sales and plant facilities	(6,645)	(1,261)
Non-cash investment activities	(1,198)	(1,852)
Stock-based compensation expense	14,260	12,690
Excess tax benefit from stock-based compensation	(14,139)	(17,814)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	78,970	14,995
Decrease (increase) in inventories	89,375	(106,231)
Decrease in prepaid expenses and other current assets	45,310	5,034
Increase in pension and post-retirement benefits	(21,575)	(25,873)
Decrease in accounts payable and accrued expenses	(125,311)	(26,295)
Other	1,336	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>690,245</b>	<b>394,366</b>
<b>INVESTING ACTIVITIES</b>		
Acquisitions of businesses/intangibles	(768,339)	(41,876)
Purchases of property/equipment	(96,802)	(111,827)
Proceeds from sales of property/equipment	15,024	8,568
Decrease in investments, equity in affiliates, and other assets	3,424	905
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(846,693)</b>	<b>(144,230)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term debt	350,000	-
Dividends paid on common stock	(184,761)	(150,360)
Share repurchase	-	(28,068)
Proceeds from exercise of stock options	7,837	8,496
Excess tax benefit from stock-based compensation	14,139	17,814
Payment to noncontrolling interest	(11,702)	-
Distribution to noncontrolling interest	(1,581)	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>173,932</b>	<b>(152,118)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(2,489)</b>	<b>(1,055)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>14,995</b>	<b>96,963</b>
Cash and cash equivalents at beginning of year	334,174	434,014
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 349,169</b>	<b>\$ 530,977</b>

See Notes to Consolidated Financial Statements

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**HORMEL FOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A**

**GENERAL**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 26, 2014, 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 26, 2014.

**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 losses of \$0.6 million and gains of \$2.4 million for the third quarter and nine months ended July 26, 2015, respectively, compared to gains of \$1.6 million and \$3.0 million for the third quarter and nine months ended July 27, 2014. The Company has transitioned the majority of this portfolio to more 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, amortization of affordable housing investments, and amortization of bond financing costs. The noted investments are included in other assets 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 (loss) or interest expense, as appropriate.

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On March 16, 2015, the Company purchased the remaining 19.29% ownership interest in its Shanghai Hormel Foods Corporation joint venture from the minority partner Shanghai Shangshi Meat Products Co. Ltd., resulting in 100.0% ownership of that business at the end of the second quarter. The interest was purchased with \$11.7 million in cash, along with the transfer of land use rights and buildings held by the joint venture. The difference between the fair value of the consideration given and the reduction in the noncontrolling interest was recognized as an \$11.9 million reduction in additional paid-in capital attributable to the Company. The Company will continue to manufacture at the Shanghai facility by leasing the land use rights and buildings from the previous minority partner.

### **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 revocable standby letters of credit totaling \$3.5 million to guarantee obligations that may arise under workers compensation claims of an affiliated party. This potential obligation is not reflected in the Company's Consolidated Statements of Financial Position.



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**New Accounting Pronouncements**

In January 2014, the Financial Accounting Standards Board (FASB) updated the guidance within Accounting Standards Codification (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 its 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. On July 8, 2015, the FASB approved a one-year deferral of the effective date. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early application is not permitted. Accordingly, the Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements.

In April 2015, the FASB updated the guidance within ASC 835, *Interest*. The update provides guidance on simplifying the presentation of debt issuance cost. The amendments require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company expects to adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

In April 2015, the FASB updated the guidance within ASC 715, *Compensation - Retirement Benefits*. The update provides guidance on simplifying the measurement date for defined benefit plan assets and obligations. The amendments allow employers with fiscal year ends that do not coincide with a calendar month end to make an accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year ends. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company expects to adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption is not expected to have a material impact on its consolidated financial statements.

In May 2015, the FASB updated the guidance within ASC 820, *Fair Value Measurements and Disclosures*. The update provides guidance on the disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share (or its equivalent) as a practical expedient. The updated guidance is to be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years, with early application permitted. The Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2017, and is currently assessing the impact on its

consolidated financial statements.

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On July 13, 2015, the Company acquired Applegate Farms, LLC (Applegate) of Bridgewater, New Jersey for a preliminary purchase price of \$771.8 million in cash. The purchase price is preliminary pending final working capital and other purchase accounting adjustments, and was funded by the Company with cash on hand and by utilizing short-term financing.

The acquisition was accounted for as a business combination using the acquisition method. The Company has estimated the acquisition date fair values of the assets acquired and liabilities assumed as the Company is in the process of obtaining an independent appraisal. The Company has recorded goodwill and will record intangible assets and the related deferred taxes once identified by an independent appraisal. Therefore, a preliminary allocation of the purchase price to the acquired assets, liabilities, and goodwill is presented in the table below.

(in thousands)	
Accounts receivable	\$ 25,460
Inventory	20,214
Prepaid and other assets	2,916
Property, plant and equipment	3,463
Goodwill and intangibles	743,422
Current liabilities	(23,660)
Purchase price	\$ 771,815

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of the *Applegate*® brand, the supply chain for natural and organic products, and the potential to expand presence in the natural and organic channels. A portion of the goodwill balance is expected to be deductible for income tax purposes. The goodwill has been allocated to the Refrigerated Foods segment.

The Company recognized \$8.6 million of transaction costs in the third quarter related to the acquisition and the charges were reported in selling, general and administrative expense in the Company's Consolidated Statements of Operations.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the Refrigerated Foods reporting segment. The acquisition contributed \$12.4 million of net sales for the third quarter ended July 26, 2015.

*Applegate*® is the No. 1 brand in natural and organic value-added prepared meats and this acquisition will allow the Company to expand the breadth of its protein offerings to provide consumers more choice in that fast growing category.

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On August 11, 2014, the Company acquired CytoSport Holdings, Inc. (CytoSport) of Benicia, California for a preliminary purchase price of \$420.9 million in cash. The purchase price is preliminary pending final purchase accounting adjustments, 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 two years subsequent to the year of acquisition. The Company has recognized a \$10.3 million liability related to this potential payment as of July 26, 2015, based on the current estimated fair value determined by an independent appraisal.

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The acquisition was accounted for as a business combination using the acquisition method. The Company has estimated the acquisition date fair values of the assets acquired and liabilities assumed, using independent appraisals and other analyses, and is in the process of determining final purchase accounting adjustments. Therefore, a preliminary allocation of the purchase price to the acquired assets, liabilities, and goodwill is presented in the table below.

(in thousands)	
Accounts receivable	\$ 30,580
Inventory	62,246
Prepaid and other assets	3,133
Property, plant and equipment	8,119
Intangible assets	183,607
Goodwill	274,238
Current liabilities	(59,366)
Long-term liabilities	(25,038)
Deferred taxes	(56,667)
Purchase price	\$ 420,852

The liabilities shown above include \$21.9 million representing potential payments owed under a supplier agreement, which are contingent on future production levels through fiscal year 2018.

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of the assembled workforce, manufacturing synergies, and the potential to expand presence in alternate channels. The goodwill balance is not expected to be deductible for income tax purposes. The goodwill and intangible assets have been allocated to the Specialty Foods and International & Other reporting segments.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the Specialty Foods and International & Other reporting segments. The acquisition contributed \$84.5 million and \$235.9 million of net sales for the third quarter and nine months ended July 26, 2015.

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.

On November 26, 2013, the Company acquired the China based *SKIPPY* peanut butter business from Conopco, Inc. (doing business as Unilever United States Inc.) of Englewood Cliffs, New Jersey for a final 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 funded by the Company with cash on hand.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the International & Other reporting segment.

*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.

Pro forma results of operations are not presented, as no acquisition was considered material, individually or in the aggregate, to the consolidated Company.

Table of Contents**NOTE C****STOCK-BASED COMPENSATION**

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

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 26, 2015, and changes during the nine months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at October 26, 2014	17,402	\$ 24.61		
Granted	1,514	52.55		
Exercised	1,147	18.83		
Forfeited	1	18.71		
Outstanding at July 26, 2015	17,768	27.37	5.2 years	\$ 536,506
Exercisable at July 26, 2015	13,469	\$ 22.64	4.2 years	\$ 470,362

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 2015 and 2014, are as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
Weighted-average grant date fair value	\$ 10.11	\$ 10.52	\$ 9.84	\$ 9.70
Intrinsic value of exercised options	\$ 10,223	\$ 23,512	\$ 42,824	\$ 55,481

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 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
Risk-free interest rate	1.9%	2.6%	2.1%	2.5%
Dividend yield	1.8%	1.7%	1.9%	1.8%
Stock price volatility	19.0%	20.0%	19.0%	20.0%

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Expected option life	8 years	8 years	8 years	8 years
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As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company's Board of Directors and the stock price on the grant date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee and non-employee director groups.



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The Company's nonvested shares granted on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted between September 27, 2010, and July 27, 2014, vest after one year. Nonvested shares granted on or after July 28, 2014, vest on the earlier of the day before the Company's next annual meeting date or one year. A reconciliation of the nonvested shares (in thousands) as of July 26, 2015, and changes during the nine months then ended, is as follows:

	<b>Shares</b>	<b>Weighted- Average Grant- Date Fair Value</b>
Nonvested at October 26, 2014	70	\$ 33.58
Granted	37	51.74
Vested	70	33.58
Nonvested at July 26, 2015	37	\$ 51.74

The weighted-average grant date fair value of nonvested shares granted, the total fair value (in thousands) of nonvested shares granted, and the fair value (in thousands) of shares that have vested during the first nine months of fiscal years 2015 and 2014, are as follows:

	<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>
Weighted-average grant date fair value	\$ 51.74	\$ 43.46
Fair value of nonvested shares granted	\$ 1,920	\$ 1,440
Fair value of shares vested	\$ 2,347	\$ 2,056

Stock-based compensation expense, along with the related income tax benefit, for the third quarter and first nine months of fiscal years 2015 and 2014 is presented in the table below.

<u>(in thousands)</u>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
Stock-based compensation expense recognized	\$ 1,711	\$ 1,746	\$ 14,260	\$ 12,690
Income tax benefit recognized	(649)	(663)	(5,414)	(4,822)
After-tax stock-based compensation expense	\$ 1,062	\$ 1,083	\$ 8,846	\$ 7,868

At July 26, 2015, there was \$10.7 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 26, 2015, cash received from stock option exercises was \$1.8 million and \$7.8 million, respectively, compared to \$3.0 million and \$8.5 million for the third quarter and nine months ended July 27, 2014. The total tax benefit to be realized for tax deductions from these option exercises for the third quarter and nine months ended July 26, 2015, was \$3.9 million and \$16.3 million, respectively, compared to \$8.9 million and \$21.0 million in the comparable periods of fiscal 2014.

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.



Table of Contents**NOTE D GOODWILL AND INTANGIBLE ASSETS**

The carrying amounts of goodwill for the third quarter and nine months ended July 26, 2015, are presented in the table below. The additions during the third quarter are entirely due to the acquisition of Applegate on July 13, 2015. The goodwill amounts are preliminary pending final working capital adjustments. Purchase adjustments during the third quarter relate to the CytoSport acquisition. The reduction in the first nine months is entirely due to the sale of an immaterial product line.

<u>(in thousands)</u>	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of April 26, 2015	\$ 322,421	\$ 96,208	\$ 203,214	\$ 474,341	\$ 132,749	\$ 1,228,933
Goodwill acquired	-	743,058	-	-	-	743,058
Purchase adjustments	-	-	-	6,916	-	6,916
Balance as of July 26, 2015	\$ 322,421	\$ 839,266	\$ 203,214	\$ 481,257	\$ 132,749	\$ 1,978,907

<u>(in thousands)</u>	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of October 26, 2014	\$ 322,942	\$ 96,643	\$ 203,214	\$ 470,857	\$ 132,750	\$ 1,226,406
Goodwill acquired	-	743,058	-	-	-	743,058
Purchase adjustments	-	-	-	10,400	-	10,400
Disposal	(521)	(435)	-	-	(1)	(957)
Balance as of July 26, 2015	\$ 322,421	\$ 839,266	\$ 203,214	\$ 481,257	\$ 132,749	\$ 1,978,907

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below.

<u>(in thousands)</u>	July 26, 2015		October 26, 2014	
	Gross Carrying	Accumulated	Gross Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Customer lists/relationships	\$ 56,390	\$ (11,893)	\$ 67,540	\$ (19,336)
Proprietary software & technology	14,820	(14,596)	14,820	(13,542)
Formulas & recipes	7,490	(6,654)	17,854	(15,955)
Other intangibles	1,170	(1,026)	4,746	(4,503)
Total	\$ 79,870	\$ (34,169)	\$ 104,960	\$ (53,336)

Amortization expense was \$2.3 million and \$6.3 million for the third quarter and nine months ended July 26, 2015, respectively, compared to \$2.3 million and \$6.9 million for the third quarter and nine months ended July 27, 2014.

Estimated annual amortization expense for the five fiscal years after October 26, 2014, is as follows:

(in thousands)

2015	\$ 7,919
2016	5,591
2017	5,118
2018	4,876
2019	4,833

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

<u>(in thousands)</u>		<b>July 26, 2015</b>		<b>October 26, 2014</b>
Brands/tradenames/trademarks	\$	495,282	\$	495,282
Other intangibles		7,984		7,984
Total	\$	503,266	\$	503,266

**NOTE E INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES**

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

Investments in and receivables from affiliates consists of the following:

<u>(in thousands)</u>	<b>Segment</b>	<b>% Owned</b>		<b>July 26, 2015</b>		<b>October 26, 2014</b>
MegaMex Foods, LLC	Grocery Products	50%	\$	186,770	\$	208,221
Foreign Joint Ventures	International & Other	Various (26-50%)		58,848		56,230
Total			\$	245,618	\$	264,451

Equity in earnings of affiliates consists of the following:

<u>(in thousands)</u>	<b>Segment</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
MegaMex Foods, LLC	Grocery Products	\$ 4,928	\$ 2,945	\$ 20,142	\$ 10,002
Foreign Joint Ventures	International & Other	1,468	595	(4,212)	1,860
Total		\$ 6,396	\$ 3,540	\$ 15,930	\$ 11,862

Equity in earnings in the first nine months of fiscal 2015 included nonrecurring charges related to the exit from international joint venture businesses. There were \$27.3 million and \$37.3 million of dividends received from affiliates for the three and nine months ended July 26, 2015, respectively, compared to \$9.1 million and \$19.1 million dividends received for the three and nine months ended July 27, 2014.

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The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$16.4 million is remaining as of July 26, 2015. This difference is being amortized through equity in earnings of affiliates.

**NOTE F**            **EARNINGS PER SHARE DATA**

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

<u>(in thousands)</u>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
Basic weighted-average shares outstanding	264,258	263,983	263,987	263,887
Dilutive potential common shares	6,344	6,417	6,382	6,458
Diluted weighted-average shares outstanding	270,602	270,400	270,369	270,345

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For the third quarter and nine months ended July 26, 2015, twelve 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 thirty-seven thousand and 0.6 million for the third quarter and nine months ended July 27, 2014.

**NOTE G ACCUMULATED OTHER COMPREHENSIVE LOSS**

Components of accumulated other comprehensive loss are as follows:

<u>(in thousands)</u>	<b>Foreign Currency Translation</b>	<b>Pension &amp; Other Benefits</b>	<b>Deferred Gain (Loss) - Hedging</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at April 26, 2015	\$ 8,064	\$ (202,184)	\$ (5,637)	\$ (199,757)
Unrecognized gains:				
Gross	(1,158)		8,184	7,026
Tax effect			(3,089)	(3,089)
Reclassification into net earnings:				
Gross		3,070 (1)	3,330 (2)	6,400
Tax effect		(1,166)	(1,257)	(2,423)
Net of tax amount	(1,158)	1,904	7,168	7,914
Balance at July 26, 2015	\$ 6,906	\$ (200,280)	\$ 1,531	\$ (191,843)

<u>(in thousands)</u>	<b>Foreign Currency Translation</b>	<b>Pension &amp; Other Benefits</b>	<b>Deferred Gain (Loss) - Hedging</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at October 26, 2014	\$ 7,480	\$ (205,986)	\$ (9,194)	\$ (207,700)
Unrecognized gains:				
Gross	(969)	11	6,814	5,856
Tax effect		(4)	(2,572)	(2,576)
Reclassification into net earnings:				
Gross		9,188 (1)	10,414 (2)	19,602
Tax effect		(3,489)	(3,931)	(7,420)
Net of tax amount	(969)	5,706	10,725	15,462
Purchase of additional ownership from noncontrolling interest	395			395
Balance at July 26, 2015	\$ 6,906	\$ (200,280)	\$ 1,531	\$ (191,843)

(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>		<b>July 26, 2015</b>		<b>October 26, 2014</b>
Finished products	\$	567,297	\$	604,946
Raw materials and work-in-process		216,434		274,105
Materials and supplies		200,721		175,501
Total	\$	984,452	\$	1,054,552



Table of Contents**NOTE I DERIVATIVES AND HEDGING**

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

**Cash Flow Hedges:** The Company currently utilizes corn futures to offset the price fluctuation in the Company's future direct grain purchases, and has historically entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges at least quarterly. 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 26, 2015, and October 26, 2014, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

<b>Commodity</b>	<b>July 26, 2015</b>	<b>Volume</b>	<b>October 26, 2014</b>
Corn	20.5 million bushels		18.3 million bushels

As of July 26, 2015, the Company has included in AOCL, hedging gains of \$2.4 million (before tax) relating to these positions, compared to losses of \$14.8 million (before tax) as of October 26, 2014. The Company expects to recognize the majority of these gains over the next 12 months.

**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 at least quarterly. 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 Statements 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 26, 2015, and October 26, 2014, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

**Volume**

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<b>Commodity</b>	<b>July 26, 2015</b>	<b>October 26, 2014</b>
Corn	8.0 million bushels	8.0 million bushels
Lean hogs	0.3 million cwt	0.7 million cwt

**Other Derivatives:** During fiscal years 2015 and 2014, 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. The Company has not applied hedge accounting to these positions.

As of July 26, 2015, and October 26, 2014, the Company had the following outstanding futures related to these programs:

<b>Commodity</b>	<b>July 26, 2015</b>	<b>Volume</b>	<b>October 26, 2014</b>
Corn	3.2 million bushels		2.9 million bushels

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**Fair Values:** The fair values of the Company's derivative instruments (in thousands) as of July 26, 2015, and October 26, 2014, were as follows:

	Location on Consolidated Statements of Financial Position	Fair Value (1)	
		July 26, 2015	October 26, 2014
<b><u>Asset Derivatives:</u></b>			
<b>Derivatives Designated as Hedges:</b>			
Commodity contracts	Other current assets	\$ 1,986	\$ (7,124)
<b>Derivatives Not Designated as Hedges:</b>			
Commodity contracts	Other current assets	652	(938)
<b>Total Asset Derivatives</b>		<b>\$ 2,638</b>	<b>\$ (8,062)</b>

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

**Derivative Gains and Losses:** Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the third quarter ended July 26, 2015, and July 27, 2014, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Three Months Ended		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Three Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (4) Three Months Ended	
	July 26, 2015	July 27, 2014		July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	<b>Cash Flow Hedges:</b>						
Commodity contracts	\$ 8,184	\$ (18,159)	Cost of products sold	\$ (3,330)	\$ (1,028)	\$ (6,127)	\$ (30)
						<b>Gain/(Loss)</b>	
<b>Fair Value Hedges:</b>			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Three Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5) Three Months Ended	
				July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014

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Commodity contracts	Cost of products sold	\$ (1,727)	\$ (6,685)	\$ 2,221	\$ 266
			<b>Gain/(Loss)</b>		
	<b>Location on</b>		<b>Recognized</b>		
	<b>Consolidated</b>				
			<b>in Earnings</b>		
	<b>Statements</b>		<b>Three Months Ended</b>		
<b>Derivatives Not</b>			<b>July 26,</b>	<b>July 27,</b>	
<b>Designated as Hedges:</b>			<b>2015</b>	<b>2014</b>	
Commodity contracts	<b>of Operations</b>				
	Cost of products sold	\$ 310	\$ (2,453)		

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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 26, 2015, and July 27, 2014, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Nine Months Ended		Location on Consolidated Statements  of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Nine Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(4) Nine Months Ended	
	July 26, 2015	July 27, 2014		July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
<b>Cash Flow Hedges:</b>							
Commodity contracts	\$ 6,814	\$ (13,854)	Cost of products sold	\$ (10,414)	\$ (7,144)	\$ (6,127)	\$ 193
			Location on Consolidated Statements  of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Nine Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(5) Nine Months Ended	
				July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
<b>Fair Value Hedges:</b>							
Commodity contracts			Cost of products sold	\$ (5,664)	\$ (21,320)	\$ 2,314	\$ (209)
			Location on Consolidated Statements  of Operations	Gain/(Loss) Recognized in Earnings Nine Months Ended			
				July 26, 2015	July 27, 2014		
<b>Derivatives Not Designated as Hedges:</b>							
Commodity contracts			Cost of products sold	\$ 175	\$ (1,764)		

(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) There were no gains or losses excluded from the assessment of hedge effectiveness during the third quarter or first nine months. During the third quarter, due to market volatility the Company temporarily suspended hedge accounting for its Jennie-O Turkey Store corn futures contracts for a three week period of time. During the time of suspension, all gains or losses related to these contracts were recognized as ineffectiveness in earnings as incurred.

(3) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the third quarter or first nine months, 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.

(4) There were no gains or losses resulting from the discontinuance of cash flow hedges during the third quarter or first nine months.

(5) 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.

**NOTE J****FAIR VALUE MEASUREMENTS**

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

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

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**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 26, 2015, and October 26, 2014, and their level within the fair value hierarchy, are presented in the tables below.

<u>(in thousands)</u>	<b>Fair Value Measurements at July 26, 2015</b>			
	<b>Fair Value at July 26, 2015</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 349,169	\$ 349,169	\$ -	\$ -
Other trading securities (2)	119,625	39,809	79,816	-
Commodity derivatives (3)	3,346	3,346	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 472,140</b>	<b>\$ 392,324</b>	<b>\$ 79,816</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 54,173	\$ 23,680	\$ 30,493	\$ -
<b>Total Liabilities at Fair Value</b>	<b>\$ 54,173</b>	<b>\$ 23,680</b>	<b>\$ 30,493</b>	<b>\$ -</b>

**Fair Value Measurements at October 26, 2014**

<u>(in thousands)</u>	<b>Fair Value Measurements at October 26, 2014</b>			
	<b>Fair Value at October 26, 2014</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 334,174	\$ 334,174	\$ -	\$ -
Other trading securities (2)	117,249	39,120	78,129	-
Commodity derivatives (3)	3,461	3,461	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 454,884</b>	<b>\$ 376,755</b>	<b>\$ 78,129</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 54,809	\$ 23,642	\$ 31,167	\$ -
<b>Total Liabilities at Fair Value</b>	<b>\$ 54,809</b>	<b>\$ 23,642</b>	<b>\$ 31,167</b>	<b>\$ -</b>

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

- (1) The Company's cash equivalents consist primarily of bank deposits, money market funds rated AAA, or other highly liquid investment accounts. As these investments have a maturity date of three months or less, the carrying value approximates fair value.
- (2) The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A majority of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these funds is set based on a formula using the yield of the general account investment portfolio that supports the fund, adjusted for expenses and other charges. The rate is guaranteed for one year at issue, and may be reset annually on the policy anniversary, subject to a guaranteed minimum rate. As the value is based



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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 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 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 26, 2015, the Company has recognized the right to reclaim net cash collateral of \$0.7 million from various counterparties (including \$8.8 million of cash less \$8.1 million of realized losses on closed positions). As of October 26, 2014, the Company had recognized the right to reclaim net cash collateral of \$11.5 million from various counterparties (including \$55.6 million of cash less \$44.1 million of realized losses on closed positions).

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 \$273.6 million as of July 26, 2015, and \$273.8 million as of October 26, 2014.

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 26, 2015, and July 27, 2014, 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:

<u>(in thousands)</u>	<b>Pension Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
Service cost	\$ 7,198	\$ 6,477	\$ 21,596	\$ 19,457

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Interest cost	13,131		13,219		39,392		39,812
Expected return on plan assets	(22,198)		(20,863)		(66,594)		(62,840)
Amortization of prior service cost	(1,220)		(1,242)		(3,659)		(3,728)
Recognized actuarial loss	4,625		3,172		13,851		9,525
Net periodic cost	\$ 1,536	\$	763	\$	4,586	\$	2,226

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<u>(in thousands)</u>	<b>Post-retirement Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>
Service cost	\$ 442	\$ 484	\$ 1,327	\$ 1,450
Interest cost	3,337	3,785	10,009	11,356
Amortization of prior service cost	(335)	(334)	(1,003)	(1,002)
Recognized actuarial gain	-	(1)	(1)	(2)
Net periodic cost	\$ 3,444	\$ 3,934	\$ 10,332	\$ 11,802

During the third quarter of fiscal 2015, the Company made discretionary contributions of \$22.7 million to fund its pension plans, compared to discretionary contributions of \$25.6 million during the third quarter of fiscal 2014.

**NOTE L INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at July 26, 2015, recorded in other long-term liabilities was \$24.7 million, of which \$16.1 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 \$40 thousand and \$0.4 million included in expense for both the third quarter and first nine months, respectively, of fiscal 2015. The amount of accrued interest and penalties at July 26, 2015, associated with unrecognized tax benefits was \$3.2 million.

The Company is regularly audited by federal and state taxing authorities. During the fourth quarter of fiscal year 2014 the I.R.S. opened an examination of the Company's consolidated federal income tax returns for fiscal year 2013; that audit is still ongoing. During the first quarter of fiscal year 2015, the Company entered into a voluntary program with the I.R.S. called the Compliance Assurance Process (CAP). The objective of CAP is to contemporaneously work with the I.R.S. to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company has elected to participate in the CAP program for 2015 and may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time.

The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2010. 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.

**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, the Affiliated Business Units, and Applegate. 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, Burke Corporation, and Dan's Prize businesses. Through fiscal 2014, this segment also included Precept Foods, LLC, a 50.01 percent owned joint venture that was dissolved at the end of the fiscal year.

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, CytoSport/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.

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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 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
<b>Sales to Unaffiliated Customers</b>				
Grocery Products	\$ 388,094	\$ 359,549	\$ 1,195,110	\$ 1,153,099
Refrigerated Foods	1,056,125	1,192,624	3,222,851	3,432,289
Jennie-O Turkey Store	336,533	382,647	1,215,464	1,162,472
Specialty Foods	282,774	216,406	833,472	629,561
International & Other	125,061	133,721	396,108	395,064
Total	\$ 2,188,587	\$ 2,284,947	\$ 6,863,005	\$ 6,772,485
<b>Intersegment Sales</b>				
Grocery Products	\$ -	\$ -	\$ -	\$ -
Refrigerated Foods	2,440	3,451	10,183	15,798
Jennie-O Turkey Store	27,241	35,128	99,023	105,127
Specialty Foods	18	47	64	99
International & Other	-	-	-	-
Total	\$ 29,699	\$ 38,626	\$ 109,270	\$ 121,024
Intersegment elimination	(29,699)	(38,626)	(109,270)	(121,024)
Total	\$ -	\$ -	\$ -	\$ -
<b>Net Sales</b>				
Grocery Products	\$ 388,094	\$ 359,549	\$ 1,195,110	\$ 1,153,099
Refrigerated Foods	1,058,565	1,196,075	3,233,034	3,448,087
Jennie-O Turkey Store	363,774	417,775	1,314,487	1,267,599
Specialty Foods	282,792	216,453	833,536	629,660
International & Other	125,061	133,721	396,108	395,064
Intersegment elimination	(29,699)	(38,626)	(109,270)	(121,024)
Total	\$ 2,188,587	\$ 2,284,947	\$ 6,863,005	\$ 6,772,485
<b>Segment Operating Profit</b>				
Grocery Products	\$ 53,108	\$ 33,781	\$ 149,810	\$ 145,013
Refrigerated Foods	97,692	90,028	313,681	250,724
Jennie-O Turkey Store	35,374	64,756	202,990	177,109
Specialty Foods	31,190	17,378	70,910	57,767
International & Other	19,251	18,696	55,018	62,116
Total segment operating profit	\$ 236,615	\$ 224,639	792,409	692,729
Net interest and investment expense	2,941	1,522	6,836	6,842
General corporate expense	5,473	11,174	18,550	27,242
Noncontrolling interest	18	1,039	964	2,765
Earnings before income taxes	\$ 228,219	\$ 212,982	\$ 767,987	\$ 661,410



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

**CRITICAL ACCOUNTING POLICIES**

There have been no material changes in the Company's Critical Accounting Policies, as disclosed in its Annual Report on Form 10-K for the fiscal year ended October 26, 2014.

**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.

The Company reported net earnings per diluted share of \$0.54 for the third quarter of fiscal 2015, compared to \$0.51 per diluted share in the third quarter of fiscal 2014. Significant factors impacting the quarter were:

- Record net earnings and volume sales, with four of the Company's five reporting segments generating segment profit growth.
- Grocery Products drove segment profit growth with favorable input costs and increased sales of *Hormel* chili and *SKIPPY* peanut butter.
- Specialty Foods segment profit benefited from improved cost structures and synergies between the CytoSport Holdings, LLC (CytoSport) and Century Foods International (Century Foods) businesses.
- The Refrigerated Foods segment delivered segment profit gains, despite \$8.6 million of transaction costs associated with the acquisition of Applegate Farms, LLC (Applegate) at the end of the quarter.
- Jennie-O Turkey Store profits decreased during the quarter, reflecting the substantial impact of the highly pathogenic avian influenza (HPAI) outbreak earlier this year.
- International & Other segment profit increased with higher royalties and strong performance by the Company's China based businesses.



### Consolidated Results

Net earnings attributable to the Company for the third quarter of fiscal 2015 increased 6.5 percent to \$146.9 million from \$138.0 million in the same quarter of fiscal 2014. Diluted earnings per share for the third quarter increased to \$0.54 from \$0.51 in the third quarter of fiscal 2014. Net earnings attributable to the Company for the first nine months of fiscal 2015 increased 15.6 percent to \$498.9 million from \$431.4 million in fiscal 2014. Diluted earnings per share for the same period were \$1.85 in fiscal 2015, compared to \$1.60 in the prior year.

Non-GAAP<sup>(1)</sup> adjusted net earnings attributable to the Company<sup>(2)</sup> for the first nine months of fiscal 2015, including Applegate transaction costs of \$8.6 million or \$0.02 per diluted share, increased 19.3 percent to \$514.5 million from \$431.4 million in the same nine months of fiscal 2014. Non-GAAP<sup>(1)</sup> adjusted diluted earnings per share<sup>(2)</sup> for the same period increased 18.8 percent to \$1.90 compared to \$1.60 last year.

(1)The non-GAAP financial measurements are presented to provide investors additional information to facilitate the comparison of past and present operations. The non-GAAP financial measurements are used for internal purposes to evaluate the results of operations and to measure a component of certain employee incentive plans in fiscal year 2015. Non-GAAP measurements are not intended to be a substitute for U.S. GAAP measurements in analyzing financial performance. These non-GAAP measurements are not in accordance with generally accepted accounting principles and may be different from non-GAAP measures used by other companies.

(2)Adjusted net earnings and diluted net earnings per share exclude nonrecurring charges relating to the closure of the Stockton, California, manufacturing facility and the exit from international joint venture businesses in the first quarter of fiscal 2015. There is no adjustment for the first nine months of fiscal 2015 for the Applegate transaction costs of \$8.6 million. The table below shows the calculations to reconcile from the non-GAAP adjusted measures to the GAAP measures.

Table of Contents**Nine Months Ended July 26, 2015**

(in thousands, except per share amounts)

	Non-GAAP Adjusted Earnings	Stockton Plant Closure	International Joint Venture Businesses Exit	GAAP Earnings
Grocery Products	\$ 160,336	\$ (10,526)		\$ 149,810
Refrigerated Foods	313,681			313,681
Jennie-O Turkey Store	202,990			202,990
Specialty Foods	70,910			70,910
International & Other	64,564		\$ (9,546)	55,018
<b>Total segment operating profit</b>	<b>812,481</b>	<b>(10,526)</b>	<b>(9,546)</b>	<b>792,409</b>
Net interest & investment expense	(6,836)			(6,836)
General corporate expense	(18,550)			(18,550)
<b>Earnings before income taxes</b>	<b>787,095</b>	<b>(10,526)</b>	<b>(9,546)</b>	<b>767,023</b>
Income taxes	(272,621)	3,685	770	(268,166)
<b>Net earnings attributable to Hormel Foods Corporation</b>	<b>\$ 514,474</b>	<b>\$ (6,841)</b>	<b>\$ (8,776)</b>	<b>\$ 498,857</b>
<b>Diluted net earnings per share*</b>	<b>\$ 1.90</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ 1.85</b>

\*Earnings per share does not sum across due to rounding

Net sales for the third quarter of fiscal 2015 decreased 4.2 percent to \$2.19 billion from \$2.28 billion in the third quarter of fiscal 2014. Net sales for the first nine months of fiscal 2015 increased 1.3 percent to \$6.86 billion from \$6.77 billion in the third quarter of fiscal 2014. Tonnage increased 2.8 percent to 1.21 billion lbs. for the third quarter compared to 1.17 billion lbs. in the same quarter of last year, and increased 3.7 percent for the first nine months of fiscal 2015 to 3.80 billion lbs. compared to 3.66 billion lbs. for the comparable period in fiscal 2014.

Net sales and tonnage for the third quarter and first nine months of fiscal 2015 were enhanced by the following incremental sales of material product lines not included in the prior year:

(in thousands)

Segment		Three Months		Nine Months	
		Net Sales	Tonnage (lbs.)	Net Sales	Tonnage (lbs.)
Specialty Foods	\$	80,972	34,715	224,620	97,452
Grocery Products		27,886	17,914	69,464	47,989
Refrigerated Foods		12,444	1,976	12,444	1,976

Net sales for the quarter were impacted by lower pricing due to declining pork markets affecting the Company's Refrigerated Foods and International & Other segments, the loss of sales related to HPAI in the Jennie-O Turkey Store segment, and the dissolution of the Precept Foods joint venture at the end of fiscal 2014.

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Cost of products sold for the third quarter of fiscal 2015 decreased 7.4 percent to \$1.78 billion compared to \$1.92 billion in the third quarter last year, and decreased 1.4 percent to \$5.55 billion in the first nine months compared to \$5.63 billion in the prior fiscal year. Lower pork input costs for the Refrigerated Foods, Grocery Products, and International & Other segments led to the decrease for the quarter, partially offset by additional product costs from the acquisition of CytoSport. Results for the first nine months also reflect a \$4.5 million charge for the closure of CytoSport's production facility in Benicia, California and nonrecurring charges totaling \$10.5 million related to the closure of the Stockton, California manufacturing facility.

Gross profit for the third quarter and first nine months of fiscal 2015 was \$409.4 million and \$1.31 billion, respectively, compared to \$364.0 million and \$1.14 billion for the same periods last year. Gross profit as a percentage of net sales increased to 18.7 percent for the third quarter of fiscal 2015 from 15.9 percent in the same quarter of fiscal 2014, and increased to 19.1 percent for the first nine months compared to 16.9 percent in fiscal 2014.

Cost structure improvements in the CytoSport and Century Foods operations contributed to the improved margins in the third quarter. In addition, the value-added businesses within the Refrigerated Foods segment

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benefited from the lower input costs referenced above, offsetting lower pork operating margins. Shipping and handling expenses for the third quarter were flat and increased slightly for the first nine months of fiscal 2015, mainly due to the additional expenses related to the CytoSport acquisition.

The strong results through three quarters, along with better visibility of the impact of HPAI on the Jennie-O Turkey Store segment in the near term have positioned the Company to deliver earnings growth for the fiscal year. The Company expects a strong finish to the year from the Specialty Foods segment with the growth and improved cost structure of the *Muscle Milk* protein nutrition products. The Refrigerated Foods segment is expected to benefit from continued value-added sales increases and lower input costs. Strong segment profit growth is anticipated for the Grocery Products segment, with favorable raw material costs and volume growth in key categories. The Company expects Jennie-O Turkey Store to continue to show year-over-year declines due to the impact of HPAI as the repopulation process is completed during the fourth quarter. The International segment will continue to face headwinds in the pork export market. The Company expects the Applegate acquisition, completed on July 13, 2015, to be neutral to earnings in fiscal 2015 after factoring in transaction costs and fair value adjustments. In fiscal 2016, the Company will benefit from a full year of Applegate sales.

Selling, general and administrative expenses for the third quarter and first nine months of fiscal 2015 were \$184.6 million and \$554.7 million, respectively, compared to \$153.0 million and \$485.0 million in the prior year. Selling, general and administrative expenses as a percentage of net sales increased to 8.4 percent and 8.1 percent of net sales in the third quarter and first nine months, respectively, of 2015 compared to 6.7 percent and 7.2 percent for the same periods of fiscal 2014. Increased advertising expense, transaction costs related to the acquisition of Applegate, and higher employee-related expenses led to the increase for the third quarter compared to last year. The Company expects selling, general and administrative expenses to be approximately 8.0 percent of net sales for the full year in fiscal 2015.

Equity in earnings of affiliates was \$6.4 million and \$15.9 million for the third quarter and first nine months of fiscal 2015, respectively, compared to \$3.5 million and \$11.9 million for the same periods last year. Improved results from the Company's MegaMex Foods joint venture reflect incentive expense in the prior year not repeated this year and savings associated with the exit from international joint venture businesses in the first quarter this year.

The effective tax rate for the third quarter and first nine months of fiscal 2015 was 35.6 percent and 34.9 percent, respectively, compared to 34.7 percent and 34.4 percent for the third quarter and first nine months of fiscal 2014. The higher rate for the third quarter and first nine months of the current year is predominantly due to the unfavorable impact of the exit from international joint venture businesses. The Company expects a full-year effective tax rate between 34.5 and 35.0 percent for fiscal 2015.

Table of Contents**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 26, 2015	July 27, 2014	% Change	July 26, 2015	July 27, 2014	% Change
<b>Net Sales</b>						
Grocery Products	\$ 388,094	\$ 359,549	7.9	\$ 1,195,110	\$ 1,153,099	3.6
Refrigerated Foods	1,056,125	1,192,624	(11.4)	3,222,851	3,432,289	(6.1)
Jennie-O Turkey Store	336,533	382,647	(12.1)	1,215,464	1,162,472	4.6
Specialty Foods	282,774	216,406	30.7	833,472	629,561	32.4
International & Other	125,061	133,721	(6.5)	396,108	395,064	0.3
Total	\$ 2,188,587	\$ 2,284,947	(4.2)	\$ 6,863,005	\$ 6,772,485	1.3
<b>Segment Operating Profit</b>						
Grocery Products	\$ 53,108	\$ 33,781	57.2	\$ 149,810	\$ 145,013	3.3
Refrigerated Foods	97,692	90,028	8.5	313,681	250,724	25.1
Jennie-O Turkey Store	35,374	64,756	(45.4)	202,990	177,109	14.6
Specialty Foods	31,190	17,378	79.5	70,910	57,767	22.8
International & Other	19,251	18,696	3.0	55,018	62,116	(11.4)
Total segment operating profit	\$ 236,615	\$ 224,639	5.3	\$ 792,409	\$ 692,729	14.4
Net interest and investment expense	2,941	1,522	93.2	6,836	6,842	(0.01)
General corporate expense	5,473	11,174	(51.0)	18,550	27,242	(31.9)
Noncontrolling interest	18	1,039	(98.3)	964	2,765	(65.1)
Earnings before income taxes	\$ 228,219	\$ 212,982	7.2	\$ 767,987	\$ 661,410	16.1

**Grocery Products**

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

Results for the Grocery Products segment for the third quarter and first nine months compared to the prior year are as follows:

**Three Months****Nine Months**

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<u>(in thousands)</u>	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>% Change</b>	<b>July 26, 2015</b>	<b>July 27, 2014</b>	<b>% Change</b>
Net sales	\$ 388,094	\$ 359,549	7.9	\$ 1,195,110	\$ 1,153,099	3.6
Tonnage (lbs.)	209,770	191,548	9.5	660,565	631,932	4.5
Segment profit	\$ 53,108	\$ 33,781	57.2	\$ 149,810	\$ 145,013	3.3

Additional MegaMex Foods products not included in the prior year contributed an incremental \$27.9 million of net sales and 17.9 million lbs. for the third quarter, and \$69.5 million of net sales and 48.0 million lbs. for the first nine months of fiscal 2015 to top-line results. Strong sales of *Hormel* chili and *SKIPPY* peanut butter also contributed to the improved net sales results for the third quarter, offsetting sales declines of *Hormel Compleats* microwave meals.

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Grocery Products remains focused on building brand equity and driving sales with marketing support for key products.

In addition to increased sales of *Hormel* chili and *SKIPPY* peanut butter, segment profit results in the third quarter were aided by favorable pork and beef input costs and improved equity results. Segment profit for the first nine months of fiscal 2015 was impacted by nonrecurring charges totaling \$10.5 million related to the closure of the Stockton, California manufacturing facility.

The Company anticipates strong segment profit growth in the fourth quarter, with favorable input costs and volume growth in key categories.

**Refrigerated Foods**

The Refrigerated Foods segment includes the Hormel Refrigerated operating segment, the Affiliated Business Units, and Applegate. 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, Burke Corporation, and Dan's Prize businesses. Through fiscal 2014, this segment also included Precept Foods, LLC, a 50.01 percent owned joint venture that was dissolved at the end of the fiscal year.

Results for the Refrigerated Foods segment for the third quarter and first nine months compared to the prior year are as follows:

<u>(in thousands)</u>	Three Months			Nine Months		
	July 26, 2015	July 27, 2014	% Change	July 26, 2015	July 27, 2014	% Change
Net sales	\$ 1,056,125	\$ 1,192,624	(11.4)	\$ 3,222,851	\$ 3,432,289	(6.1)
Tonnage (lbs.)	579,925	567,416	2.2	1,766,947	1,764,036	0.2
Segment profit	\$ 97,692	\$ 90,028	8.5	\$ 313,681	\$ 250,724	25.1

Many of the Company's value-added products enjoyed strong sales growth during the third quarter. On the retail side, sales gains were led by sales of *Hormel* pepperoni and *Hormel Gatherings* party trays. Within the foodservice business unit, sales of *Hormel Natural Choice* deli meats and *Hormel Fire Braised* meats experienced gains for the quarter. Despite robust value-added sales, sales declined overall in the third quarter and for the first nine months primarily due to price decreases on items such as bacon, driven by declining pork markets, and the dissolution of the Precept Foods joint venture at the end of fiscal 2014.

Segment profit results were driven by lower input costs along with strong sales growth of value-added products. Both the value-added retail and foodservice businesses as well as the Affiliated Business Units posted segment profit gains compared to the prior year. The Company completed the acquisition of Applegate on July 13, 2015, with \$8.6 million of transaction costs reflected in the third quarter.

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The Company expects fourth quarter segment profit to finish above last year's strong results with continued robust value-added sales results aided by lower input costs. The fourth quarter will benefit from an entire quarter of additional sales from the recently acquired Applegate business. This acquisition is expected to be neutral to earnings for the full year as the additional sales will be offset by transaction costs incurred in the third quarter. In fiscal 2016, the Company will benefit from a full year of Applegate sales.

### **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.



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Results for the JOTS segment for the third quarter and first nine months compared to the prior year are as follows:

<u>(in thousands)</u>	Three Months			Nine Months		
	July 26, 2015	July 27, 2014	% Change	July 26, 2015	July 27, 2014	% Change
Net sales	\$ 336,533	\$ 382,647	(12.1)	\$ 1,215,464	\$ 1,162,472	4.6
Tonnage (lbs.)	167,533	198,724	(15.7)	627,890	612,155	2.6
Segment profit	\$ 35,374	\$ 64,756	(45.4)	\$ 202,990	\$ 177,109	14.6

Both top and bottom-line results for the third quarter were impacted by HPAI, as flocks lost earlier in the year created large volume shortfalls in operations and sales. Jennie-O Turkey Store was able to purchase turkey meat from other suppliers to partially offset some flock losses and successfully managed inventory allocations across customer orders. With the strong value-added product sales enjoyed during the first half of the year, the first nine month comparisons were positive and able to offset the lower sales and margins during the third quarter.

Approximately two-thirds of the farms previously impacted by HPAI have now been repopulated, and the Company expects to complete the repopulation process during the fourth quarter. Operations will gradually work through lower processing volumes as production gaps are reduced and eventually eliminated. The Company is estimating a similar sales impact in the fourth quarter with a modest segment profit improvement as compared to third quarter results.

**Specialty Foods**

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

Results for the Specialty Foods segment for the third quarter and first nine months compared to the prior year are as follows:

<u>(in thousands)</u>	Three Months			Nine Months		
	July 26, 2015	July 27, 2014	% Change	July 26, 2015	July 27, 2014	% Change
Net sales	\$ 282,774	\$ 216,406	30.7	\$ 833,472	\$ 629,561	32.4
Tonnage (lbs.)	178,416	141,887	25.7	524,326	437,130	19.9
Segment profit	\$ 31,190	\$ 17,378	79.5	\$ 70,910	\$ 57,767	22.8

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The comparative sales results for the third quarter and first nine months reflect the addition of the CytoSport business acquired on August 11, 2014, which contributed \$81.0 million of net sales and 34.7 million lbs. for the third quarter and \$224.6 million of net sales and 97.4 million lbs. for the first nine months for Specialty Foods in fiscal 2015.

Improvements to the cost structure and synergies between the CytoSport and Century Foods operations, along with stronger performance in HSP drove results for the third quarter. For the first nine months, the improved segment profit results were primarily driven by the incremental CytoSport results, including a \$4.5 million charge for the closure of its production facility in Benicia, California in the second quarter.

CytoSport has achieved additional distribution of the *Muscle Milk* protein nutrition products, with growth anticipated from more recent product introductions. Innovation is a top priority for the CytoSport business and the Company anticipates the launch of other new items within the *Muscle Milk* brand. Specialty Foods should finish the year strong with the growth and improved cost structure of this business.

Table of Contents**International & Other**

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.

Results for the International & Other segment for the third quarter and first nine months compared to the prior year are as follows:

<u>(in thousands)</u>	Three Months			Nine Months		
	July 26, 2015	July 27, 2014	% Change	July 26, 2015	July 27, 2014	% Change
Net sales	\$ 125,061	\$ 133,721	(6.5)	\$ 396,108	\$ 395,064	0.3
Tonnage (lbs.)	70,209	73,327	(4.3)	221,468	219,205	1.0
Segment profit	\$ 19,251	\$ 18,696	3.0	\$ 55,018	\$ 62,116	(11.4)

Increased sales of *SKIPPY* peanut butter did not fully offset the declines in pork exports which were hampered by soft demand in key markets in the third quarter. Continued strong growth in the Company's China businesses partially offset the decline. Port challenges experienced during the second quarter hampered net sales comparisons for the first nine months.

Segment profit gains were driven by improved margins and royalties on sales of the *SPAM* family of products, strong performance by the Company's China businesses, and increased sales of *SKIPPY* peanut butter. However, margins were hampered by significantly lower pork exports due to soft demand in Asian markets. For the first nine months, International & Other segment profits were also negatively impacted by port challenges earlier in the year and nonrecurring charges of \$9.5 million related to the exit from international joint venture businesses.

Looking ahead, the Company expects the International & Other segment to continue to face headwinds in the pork export markets over the near term, partially offset with anticipated gains from the Company's China businesses and other export items.

**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.

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Net interest and investment expense (income) for the third quarter and first nine months of fiscal 2015 was a net expense of \$2.9 million and \$6.8 million, respectively, compared to \$1.5 million and \$6.8 million for the third quarter and nine months of fiscal 2014. Interest expense was flat with the prior year at \$3.1 and \$9.3 million for the third quarter and first nine months, respectively.

General corporate expense for the third quarter and first nine months of fiscal 2015 was \$5.5 million and \$18.6 million, respectively, compared to \$11.2 million and \$27.2 million for the comparable periods of fiscal 2014. The lower expense in the third quarter is primarily due to a bad debt recorded last year and a favorable sales and use tax credit in the current year.

Net earnings attributable to the Company's noncontrolling interests was \$18 thousand and \$1.0 million for the third quarter and first nine months of fiscal 2015, respectively, compared to \$1.0 million and \$2.8 million for the comparable periods of fiscal 2014. The change reflects the dissolution of the Company's Precept Foods joint venture at the end of fiscal 2014. On March 16, 2015, the Company purchased the remaining 19.29% ownership interest in its Shanghai Hormel Foods Corporation joint venture from the minority partner Shanghai Shangshi Meat Products Co. Ltd., resulting in 100.0% ownership of that business at the end of the second quarter.

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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 26, 2014.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$349.2 million at the end of the third quarter of fiscal year 2015 compared to \$531.0 million at the end of the comparable fiscal 2014 period.

Cash provided by operating activities was \$690.2 million in the first nine months of fiscal 2015 compared to \$394.4 million in the same period of fiscal 2014. Increased earnings and overall favorable changes in working capital were the primary drivers of the improved cash flows in fiscal 2015.

Cash used in investing activities was \$846.7 million in the first nine months of fiscal 2015 compared to \$144.2 million in the comparable quarter of fiscal 2014. The first nine months of 2015 include \$771.8 million spent to purchase Applegate Farms, LLC (Applegate) of Bridgewater, New Jersey. The first nine months of 2014 include \$41.5 million spent to purchase the China based *SKIPPY* peanut butter business in Weifang, China from Unilever United States Inc. Capital expenditures in the first nine months of fiscal 2015 have decreased to \$96.8 million from \$111.8 million in the comparable nine months of fiscal 2014. The Company currently estimates its fiscal 2015 capital expenditures will be approximately \$155.0 to \$165.0 million.

Cash provided by financing activities was \$173.9 million in the first nine months of fiscal 2015 compared to cash used of \$152.1 million in the same period of fiscal 2014. In the third quarter of fiscal 2015, in connection with the purchase of Applegate, the Company borrowed \$300.0 million under a term loan facility and \$50.0 million under a revolving credit facility. On March 16, 2015, the Company purchased the remaining 19.29% ownership interest in its Shanghai Hormel Foods Corporation joint venture from the minority partner Shanghai Shangshi Meat Products Co. Ltd., resulting in 100.0% ownership of that business at the end of the second quarter. The interest was purchased with \$11.7 million in cash, along with the transfer of land use rights and buildings held by the joint venture. The Company did not repurchase any of its common stock in the first nine months of fiscal 2015 compared to \$28.1 million purchased in the first nine months 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 continue to be an ongoing financing activity for the Company. Dividends paid in the first nine months of fiscal 2015 were \$184.8 million compared to \$150.4 million in the comparable period of fiscal 2014. For fiscal 2015, the annual dividend rate has been increased to \$1.00 per share, representing the 49th consecutive annual dividend increase. The Company has paid dividends for 348 consecutive quarters and expects to continue doing so.

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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 2015, the Company was in compliance with all of these debt covenants.

Cash flows from operating activities continue to provide the Company with its principal source of liquidity. The Company does not anticipate a significant risk to cash flows from this source in the foreseeable future because the Company operates in a relatively stable industry and has a balanced business model that provides the Company the ability to navigate challenges and continue to deliver consistent growth over the long term.

Returning the value returned to shareholders through quarterly dividend payments remains a priority for the Company in fiscal 2015. The Company seeks strategic acquisitions to generate growth, as evidenced by the recent acquisition of Applegate, and invests in product innovations. Capital spending to enhance and expand current operations is also expected to continue throughout the remainder of the fiscal year.

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**Contractual Obligations and Commercial Commitments**

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at July 26, 2015, was \$24.7 million.

**Off-Balance Sheet Arrangements**

As of July 26, 2015, and October 26, 2014, the Company had \$43.5 million and \$41.7 million, respectively, of standby letters of credit issued on its behalf. The standby letters of credit are primarily related to the Company's self-insured workers compensation programs. However, that amount also includes \$3.5 million of revocable standby letters of credit for obligations of an affiliated party that may arise under workers compensation claims. Letters of credit are not reflected in the Company's Consolidated Statements of Financial Position.

**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, estimated, 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 93 percent and 95 percent of the total hogs purchased by the Company during the first nine months of fiscal 2015 and 2014, 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 at least quarterly. 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 26, 2015, was \$1.6 million compared to \$0.6 million as of October 26, 2014.

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 26, 2015, open contracts by \$2.0 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 \$(2.0) million, before tax, on the Consolidated Statements of Financial Position as of July 26, 2015, compared to an unrealized loss of \$(11.3) million, before tax, as of October 26, 2014.

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 26, 2015, open grain contracts by \$8.4 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 \$3.6 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 26, 2015, the balance of these securities totaled \$119.6 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 with these securities are included in the Company's net earnings on a mark-to-market basis. A 10 percent decline in

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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 first nine months of fiscal year 2015, 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**

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The Company is a party to various legal proceedings related to the on-going operation of its business, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws, employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. However, future developments or settlements are uncertain and may require the Company to change such accruals as proceedings progress. Resolution of any currently known matters, either individually or in the aggregate, is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

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**Item 1A. Risk Factors**

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

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

food spoilage;

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

food allergens;

nutritional and health-related concerns;

federal, state, and local food processing controls;

consumer product liability claims;

product tampering; and

the possible unavailability and/or expense of liability insurance.

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

*Deterioration of economic conditions could harm the Company's business.*

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

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

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

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

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

Additionally, if a highly 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 and availability of pork, poultry, feed ingredients, avocados, peanuts, energy, 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 energy costs and 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.

The supply of natural and organic protein may impact the Company's ability to ensure a continuing supply of these products.

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 Highly Pathogenic Avian Influenza (HPAI). 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, HPAI has impacted the Company's Jennie-O Turkey Store operations and several of the Company's independent turkey suppliers. The impact of HPAI in the industry will reduce volume through the Company's turkey facilities through at least the end of the fiscal 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.



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*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:

price;

product quality and attributes;

brand identification;

breadth of product line; and

customer service.

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. Trends within the food industry change often, and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for the Company's brands and products. 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 Applegate Farms, LLC, 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 consumers, employees, 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.

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*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 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 26, 2015, the Company had approximately 20,600 employees worldwide, of which approximately 5,400 were represented by 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. Union contracts at the Company's facilities in Algona, Iowa; Atlanta, Georgia; Austin, Minnesota; Beloit, Wisconsin; and Fremont, Nebraska will expire during the fourth quarter of fiscal 2015, covering a combined total of approximately 3,400 employees. Negotiations at these facilities are ongoing. A union contract at the Company's facility in Vernon, California expired in July 2015, and the Company negotiated a new contract for this facility during the third quarter.

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

**Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2015**

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<b>Period</b>		<b>Total Number of Shares Purchased<sup>1</sup></b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>2</sup></b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>2</sup></b>
April 27, 2015	May 31, 2015	-	\$ -	-	8,187,700
June 1, 2015	June 28, 2015	8	56.66	-	8,187,700
June 29, 2015	July 26, 2015	-	-	-	8,187,700
Total		8	\$ 56.66	-	

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<sup>1</sup>The 8 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.

**Item 6. Exhibits**

31.1 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Labels Linkbase Document



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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 4, 2015

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

Date: September 4, 2015

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