

HORMEL FOODS CORP /DE/  
Form 10-Q  
March 07, 2014  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended January 26, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-2402

**HORMEL FOODS CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

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

1 Hormel Place  
Austin, Minnesota

55912-3680

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(Address of principal executive offices)

(Zip Code)

(507) 437-5611

(Registrant's telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  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 March 2, 2014	
Common Stock	\$.0293 par value	263,990,215
Common Stock Non-Voting	\$.01 par value	-0-

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(in thousands, except share and per share amounts)

	<b>January 26, 2014</b>	<b>October 27, 2013</b>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 639,844	\$ 434,014
Accounts receivable	505,024	551,500
Inventories	924,500	967,977
Deferred income taxes	73,543	73,543
Prepaid expenses	13,888	13,000
Other current assets	10,034	7,379
<b>TOTAL CURRENT ASSETS</b>	<b>2,166,833</b>	<b>2,047,413</b>
<b>DEFERRED INCOME TAXES</b>	<b>23,323</b>	<b>25,086</b>
<b>GOODWILL</b>	<b>962,102</b>	<b>934,472</b>
<b>OTHER INTANGIBLES</b>	<b>378,361</b>	<b>378,093</b>
<b>PENSION ASSETS</b>	<b>166,494</b>	<b>162,535</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>258,128</b>	<b>270,609</b>
<b>OTHER ASSETS</b>	<b>144,408</b>	<b>142,339</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	61,516	58,506
Buildings	783,098	784,133
Equipment	1,546,306	1,532,527
Construction in progress	104,612	85,696
	2,495,532	2,460,862
Less allowance for depreciation	(1,528,011)	(1,505,529)
	967,521	955,333
<b>TOTAL ASSETS</b>	<b>\$ 5,067,170</b>	<b>\$ 4,915,880</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>January 26, 2014</b>	<b>October 27, 2013</b>
	(Unaudited)	
<b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 354,832	\$ 387,284
Accrued expenses	45,757	20,965
Accrued workers compensation	40,190	38,217
Accrued marketing expenses	117,563	91,332
Employee related expenses	142,902	192,063
Taxes payable	67,361	8,637
Interest and dividends payable	55,920	45,511
<b>TOTAL CURRENT LIABILITIES</b>	<b>824,525</b>	<b>784,009</b>
<b>PENSION AND POST-RETIREMENT BENEFITS</b>	<b>483,449</b>	<b>481,230</b>
<b>LONG-TERM DEBT less current maturities</b>	<b>250,000</b>	<b>250,000</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>84,765</b>	<b>84,062</b>
<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 263,927,305 shares January 26, 2014	7,733	7,725
issued 263,658,296 shares October 27, 2013		
Additional paid-in capital	7,794	-
Accumulated other comprehensive loss	(150,986)	(149,214)
Retained earnings	3,553,213	3,452,529
<b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>	<b>3,417,754</b>	<b>3,311,040</b>
<b>NONCONTROLLING INTEREST</b>	<b>6,677</b>	<b>5,539</b>
<b>TOTAL SHAREHOLDERS INVESTMENT</b>	<b>3,424,431</b>	<b>3,316,579</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>	<b>\$ 5,067,170</b>	<b>\$ 4,915,880</b>

See Notes to Consolidated Financial Statements



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**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	January 26, 2014	January 27, 2013
Net sales	\$ 2,242,672	\$ 2,116,241
Cost of products sold	1,844,030	1,772,048
GROSS PROFIT	398,642	344,193
Selling, general and administrative	166,189	155,831
Equity in earnings of affiliates	4,739	9,843
OPERATING INCOME	237,192	198,205
Other income and expense:		
Interest and investment income	1,173	1,810
Interest expense	(3,094)	(3,094)
EARNINGS BEFORE INCOME TAXES	235,271	196,921
Provision for income taxes	80,813	65,876
NET EARNINGS	154,458	131,045
Less: Net earnings attributable to noncontrolling interest	1,110	1,329
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	\$ 153,348	\$ 129,716
NET EARNINGS PER SHARE:		
BASIC	\$ 0.58	\$ 0.49
DILUTED	\$ 0.57	\$ 0.48
WEIGHTED-AVERAGE SHARES OUTSTANDING:		
BASIC	263,752	263,944
DILUTED	270,224	269,140
DIVIDENDS DECLARED PER SHARE:	\$ 0.20	\$ 0.17

See Notes to Consolidated Financial Statements





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**HORMEL FOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>January 26, 2014</b>	<b>January 27, 2013</b>
NET EARNINGS	\$ 154,458	\$ 131,045
Other comprehensive (loss) income, net of tax:		
Foreign currency translation	(2,291)	384
Pension and other benefits	1,019	5,554
Deferred hedging	(472)	(6,812)
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	<b>(1,744)</b>	<b>(874)</b>
<b>COMPREHENSIVE INCOME</b>	<b>152,714</b>	<b>130,171</b>
Less: Comprehensive income attributable to noncontrolling interest	1,138	1,344
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 151,576</b>	<b>\$ 128,827</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				Accumulated	Non-	Total
	Common	Treasury	Additional	Retained	Other	controlling	Shareholders
	Stock	Stock	Paid-in	Earnings	Comprehensive	Interest	Investment
			Capital		Income (Loss)		
Balance at October 28, 2012	\$ 7,707	\$ -	\$ -	\$ 3,135,317	\$ (323,569)	\$ 5,470	\$ 2,824,925
Net earnings				526,211		3,865	530,076
Other comprehensive income					174,355	204	174,559
Purchases of common stock		(70,819)					(70,819)
Stock-based compensation expense			17,596				17,596
Exercise of stock options/nonvested shares	69		23,955				24,024
Shares retired	(51)	70,819	(41,551)	(29,217)			-
Distribution to noncontrolling interest						(4,000)	(4,000)
Declared cash dividends \$ .68 per share				(179,782)			(179,782)
Balance at October 27, 2013	\$ 7,725	\$ -	\$ -	\$ 3,452,529	\$ (149,214)	\$ 5,539	\$ 3,316,579
Net earnings				153,348		1,110	154,458
Other comprehensive (loss) income					(1,772)	28	(1,744)
Stock-based compensation expense			4,957				4,957
Exercise of stock options/nonvested shares	8		2,837				2,845
Declared cash dividends \$ .20 per share				(52,664)			(52,664)
Balance at January 26, 2014	\$ 7,733	\$ -	\$ 7,794	\$ 3,553,213	\$ (150,986)	\$ 6,677	\$ 3,424,431

See Notes to Consolidated Financial Statements

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

	<b>Three Months Ended</b>	
	<b>January 26, 2014</b>	<b>January 27, 2013</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 154,458	\$ 131,045
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	29,429	27,655
Amortization of intangibles	2,331	2,189
Equity in earnings of affiliates, net of dividends	5,285	156
Provision for deferred income taxes	428	(2,395)
Gain on property/equipment sales and plant facilities	(369)	(234)
Non-cash investment activities	(135)	(1,142)
Stock-based compensation expense	4,957	5,576
Excess tax benefit from stock-based compensation	(4,111)	(13,261)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	46,476	40,505
Decrease (increase) in inventories	46,161	(3,161)
(Increase) decrease in prepaid expenses and other current assets	(4,297)	2,318
Increase in pension and post-retirement benefits	1,234	6,511
Increase (decrease) in accounts payable and accrued expenses	32,445	(53,949)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>314,292</b>	<b>141,813</b>
<b>INVESTING ACTIVITIES</b>		
Sale of trading securities	-	77,558
Acquisitions of businesses/intangibles	(41,401)	-
Purchases of property/equipment	(37,038)	(22,053)
Proceeds from sales of property/equipment	4,278	2,919
Decrease in investments, equity in affiliates, and other assets	4,028	7,919
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(70,133)</b>	<b>66,343</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid on common stock	(44,833)	(39,438)
Proceeds from exercise of stock options	3,437	23,222
Excess tax benefit from stock-based compensation	4,111	13,261
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(37,285)</b>	<b>(2,955)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(1,044)</b>	<b>88</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>205,830</b>	<b>205,289</b>
Cash and cash equivalents at beginning of year	434,014	682,388
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<b>\$ 639,844</b>	<b>\$ 887,677</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 27, 2013, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended October 27, 2013.

**Investments**

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Securities held by the trust generated a gain of \$0.5 million for the quarter ended January 26, 2014, compared to a gain of \$1.5 million for the quarter ended January 27, 2013. The majority of this portfolio is held in fixed return investments to reduce the exposure to volatility in equity markets.

During the first quarter of fiscal 2013, the Company also held securities as part of an investment portfolio, which were classified as short-term marketable securities on the Consolidated Statements of Financial Position. These investments were also trading securities. Therefore, unrealized gains and losses were included in the Company's earnings. The Company recorded a gain of \$0.2 million related to these investments for the quarter ended January 27, 2013. These securities were liquidated in the first quarter of fiscal 2013.

**Supplemental Cash Flow Information**

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

### **Guarantees**

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company's guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides revocable standby letters of credit totaling \$4.9 million to guarantee obligations that may arise under worker compensation claims of an affiliated party. This potential obligation is not reflected in the Company's Consolidated Statements of Financial Position.

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**New Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (FASB) updated the guidance within Accounting Standards Codification (ASC) 210, *Balance Sheet*. The update enhances disclosures related to the offsetting of certain assets and liabilities to enable users of financial statements to understand the effect of those arrangements on financial position. The updated guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2014, and adoption did not have a material impact on the consolidated financial statements.

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

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

**NOTE B**

**ACQUISITIONS**

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



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On November 26, 2013, the Company also acquired the China based *SKIPPY* peanut butter business from Unilever United States Inc. for a preliminary purchase price of \$41.4 million in cash. This acquisition includes the Weifang, China manufacturing facility and all sales in Mainland China. The purchase price was also funded by the Company with cash on hand. The purchase price is preliminary pending final working capital and tax valuations.

Operating results for both of these acquisitions have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are primarily reflected in the Grocery Products and International & Other reporting segments. The acquisitions contributed \$86.5 million of net sales for the first quarter of fiscal

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2014. Pro forma results are not presented, as the acquisitions are not considered material to the consolidated Company.

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

**NOTE C STOCK-BASED COMPENSATION**

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

A reconciliation of the number of options outstanding and exercisable (in thousands) as of January 26, 2014, and changes during the quarter then ended, is as follows:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at October 27, 2013	18,466	\$22.09		
Granted	1,032	45.98		
Exercised	524	19.64		
Forfeited	11	33.51		
Outstanding at January 26, 2014	18,963	\$23.45	5.6 years	\$ 412,144
Exercisable at January 26, 2014	13,694	\$19.91	4.5 years	\$ 345,526

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

	Three Months Ended	
	January 26, 2014	January 27, 2013
Weighted-average grant date fair value	\$ 9.89	\$ 5.10
Intrinsic value of exercised options	\$ 13,402	\$ 46,520

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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:

	<b>Three Months Ended</b>	
	<b>January 26, 2014</b>	<b>January 27, 2013</b>
Risk-Free Interest Rate	2.5%	1.3%
Dividend Yield	1.7%	2.2%
Stock Price Volatility	20.0%	20.0%
Expected Option Life	8 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company's Board of Directors and the stock price on the grant

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date. The expected volatility assumption is set based primarily on historical volatility. As a reasonableness test, implied volatility from exchange traded options is also examined to validate the volatility range obtained from the historical analysis. The expected life assumption is set based on an analysis of past exercise behavior by option holders. In performing the valuations for option grants, the Company has not stratified option holders as exercise behavior has historically been consistent across all employee and non-employee director groups.

The Company's nonvested shares granted on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted after September 26, 2010, vest after one year. There were no changes to the balance of nonvested shares during the first quarter, with 112 thousand shares outstanding at a weighted-average grant date fair value of \$24.77 as of January 26, 2014. No shares vested during the first quarter of fiscal year 2014 or fiscal year 2013.

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

<u>(in thousands)</u>	<b>Three Months Ended</b>	
	<b>January 26, 2014</b>	<b>January 27, 2013</b>
Stock-based compensation expense recognized	\$ 4,957	\$ 5,576
Income tax benefit recognized	1,884	2,108
After-tax stock-based compensation expense	\$3,073	\$ 3,468

At January 26, 2014, there was \$12.6 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 3.0 years. During the quarter ended January 26, 2014, cash received from stock option exercises was \$3.4 million compared to \$23.2 million for the quarter ended January 27, 2013. The total tax benefit to be realized for tax deductions from these option exercises for the quarter ended January 26, 2014, was \$5.1 million compared to \$17.6 million in the comparable quarter of fiscal 2013.

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

**NOTE D** **GOODWILL AND INTANGIBLE ASSETS**

The carrying amounts of goodwill for the quarter ended January 26, 2014, are presented in the table below. The addition during the first quarter is entirely due to the acquisition of the China based *SKIPPY* peanut butter business on November 26, 2013.

<u>(in thousands)</u>	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
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Balance as of												
October 27, 2013	\$	322,942	\$	96,643	\$	203,214	\$	207,028	\$	104,645	\$	934,472
Goodwill acquired		-		-		-		-		27,630		27,630
Balance as of												
January 26, 2014	\$	322,942	\$	96,643	\$	203,214	\$	207,028	\$	132,275	\$	962,102

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

<u>(in thousands)</u>	January 26, 2014		October 27, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	\$ 45,940	\$ (15,794)	\$ 43,340	\$ (14,719)
Formulas & recipes	17,854	(14,359)	17,854	(13,824)
Proprietary software & technology	14,820	(12,404)	14,820	(12,024)
Other intangibles	9,386	(8,341)	9,386	(7,999)
Total	\$ 88,000	\$ (50,898)	\$ 85,400	\$ (48,566)

Amortization expense was \$2.3 million for the quarter ended January 26, 2014, compared to \$2.2 million for the quarter ended January 27, 2013.

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

Fiscal Year	Estimated Amortization Expense
2014	\$ 8,797
2015	5,647
2016	3,525
2017	3,091
2018	2,849

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

<u>(in thousands)</u>	January 26, 2014	October 27, 2013
Brands/tradenames/trademarks	\$ 333,275	\$ 333,275
Other intangibles	7,984	7,984
Total	\$ 341,259	\$ 341,259

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

The Company accounts for its majority-owned operations under the consolidation method. Investments in which the Company owns a minority interest, and for which there are no other indicators of control, are accounted for under the equity or cost method. These investments, along with 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>January 26, 2014</b>	<b>October 27, 2013</b>
MegaMex Foods, LLC	Grocery Products	50%	\$ 189,980	\$ 203,413
Foreign Joint Ventures	International & Other	Various (26-50%)	68,148	67,196
Total			\$ 258,128	\$ 270,609

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Equity in earnings of affiliates consists of the following:

<u>(in thousands)</u>	Segment	Three Months Ended	
		January 26, 2014	January 27, 2013
MegaMex Foods, LLC	Grocery Products	\$ 2,528	\$ 7,037
Foreign Joint Ventures	International & Other	2,211	2,806
Total		\$ 4,739	\$ 9,843

Dividends received from affiliates were \$10.0 million for both the three months ended January 26, 2014 and the three months ended January 27, 2013. The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$17.6 million is remaining as of January 26, 2014. This difference is being amortized through equity in earnings of affiliates.

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

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

<u>(in thousands)</u>	Three Months Ended	
	January 26, 2014	January 27, 2013
Basic weighted-average shares outstanding	263,752	263,944
Dilutive potential common shares	6,472	5,196
Diluted weighted-average shares outstanding	270,224	269,140

For the three months ended January 26, 2014, and January 27, 2013, a total of 0.6 million and 1.0 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.

**NOTE G****ACCUMULATED OTHER COMPREHENSIVE LOSS**

Components of accumulated other comprehensive loss are as follows:



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<u>(in thousands)</u>	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at October 27, 2013	\$ 9,391	\$ (153,001)	\$ (5,604)	\$ (149,214)
Unrecognized (losses) gains:				
Gross	(2,319)	38	(4,004)	(6,285)
Tax effect		(14)	1,507	1,493
Reclassification into net earnings:				
Gross		1,604 (1)	3,249 (2)	4,853
Tax effect		(609)	(1,224)	(1,833)
Net of tax amount	(2,319)	1,019	(472)	(1,772)
Balance at January 26, 2014	\$ 7,072	\$ (151,982)	\$ (6,076)	\$ (150,986)

(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.

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Principal components of inventories are:

<u>(in thousands)</u>	<b>January 26, 2014</b>	<b>October 27, 2013</b>
Finished products	\$ 499,703	\$ 544,858
Raw materials and work-in-process	250,802	248,411
Materials and supplies	173,995	174,708
Total	\$ 924,500	\$ 967,977

**NOTE I**      **DERIVATIVES AND HEDGING**

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

**Cash Flow Hedges:** The Company currently utilizes corn futures to offset the price fluctuation in the Company's future direct grain purchases, and has historically entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of January 26, 2014, and October 27, 2013, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

<b>Commodity</b>	<b>Volume</b>	
	<b>January 26, 2014</b>	<b>October 27, 2013</b>
Corn	15.9 million bushels	14.7 million bushels

As of January 26, 2014, the Company has included in AOCL, hedging losses of \$9.7 million (before tax) relating to these positions, compared to losses of \$9.0 million (before tax) as of October 27, 2013. The Company expects to recognize the majority of these losses over the next 12 months. The balance as of January 26, 2014, includes a loss of \$0.7 million related to corn futures contracts held for the Company's hog operations. These contracts were redesignated as cash flow hedges during fiscal year 2013, as they were no longer highly effective. These losses will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of redesignation have been recognized in earnings as incurred.

**Fair Value Hedges:** The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market

purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statement of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of January 26, 2014, and October 27, 2013, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

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Commodity	Volume	
	January 26, 2014	October 27, 2013
Corn	5.4 million bushels	5.8 million bushels
Lean hogs	1.1 million cwt	1.4 million cwt

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

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

As of January 26, 2014, and October 27, 2013, the Company had the following outstanding futures related to these programs:

Commodity	Volume	
	January 26, 2014	October 27, 2013
Corn	2.1 million bushels	1.7 million bushels

**Fair Values:** The fair values of the Company's derivative instruments (in thousands) as of January 26, 2014, and October 27, 2013, were as follows:

	Location on Consolidated Statements of Financial Position	Fair Value (1)	
		January 26, 2014	October 27, 2013
<b>Asset Derivatives:</b>			
<b>Derivatives Designated as Hedges:</b>			
Commodity contracts	Other current assets	\$ (25,145)	\$ (25,802)
<b>Derivatives Not Designated as Hedges:</b>			
Commodity contracts	Other current assets	(2,277)	(3,783)
<b>Total Asset Derivatives</b>		<b>\$ (27,422)</b>	<b>\$ (29,585)</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.



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**Derivative Gains and Losses:** Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the first quarter ended January 26, 2014, and January 27, 2013, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1)(2)		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1)(2)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3)(5)	
	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013		Three Months Ended January 26, 2014	Three Months Ended January 27, 2013	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013
<b>Cash Flow Hedges:</b>							
Commodity contracts	\$ (4,004)	\$ (4,091)	Cost of products sold	\$ (3,249)	\$ 6,830	\$ (294)	\$ 166
			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (4)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (3)(6)	
	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013		Three Months Ended January 26, 2014	Three Months Ended January 27, 2013	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013
<b>Fair Value Hedges:</b>							
Commodity contracts			Cost of products sold	\$ 1,254	\$ (1,086)	\$ (38)	\$ (30)
			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (2)			
	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013		Three Months Ended January 26, 2014	Three Months Ended January 27, 2013	Three Months Ended January 26, 2014	Three Months Ended January 27, 2013
<b>Derivatives Not Designated as Hedges:</b>							
Commodity contracts			Cost of products sold	\$ (517)	\$ (1,084)		

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

(2) During fiscal year 2013, the Company redesignated and ceased hedge accounting for its corn futures contracts held for its hog operations. At the date of redesignation of these hedges, losses of \$2.0 million (before tax) were deferred in AOCL, with \$0.7 million (before tax) remaining as of January 26, 2014. These losses will remain in AOCL until the hedged transactions occur or it is probable the hedged transactions will not occur. Gains or losses related to these contracts after the date of redesignation have been recognized in earnings as incurred.

(3) There were no gains or losses excluded from the assessment of hedge effectiveness during the quarter.

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

(5) There were no gains or losses resulting from the discontinuance of cash flow hedges during the quarter.

(6) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the quarter.

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

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

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

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

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

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of January 26, 2014, and October 27, 2013, and their level within the fair value hierarchy, are presented in the tables below.

	<b>Fair Value Measurements at January 26, 2014</b>			
	<b>Fair Value at January 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>
<i>(in thousands)</i>				
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 639,844	\$ 639,844	\$ -	\$ -
Other trading securities (2)	114,824	38,429	76,395	-
Commodity derivatives (3)	6,720	6,720	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 761,388</b>	<b>\$ 684,993</b>	<b>\$ 76,395</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 52,149	\$ 21,445	\$ 30,704	\$ -
<b>Total Liabilities at Fair Value</b>	<b>\$ 52,149</b>	<b>\$ 21,445</b>	<b>\$ 30,704</b>	<b>\$ -</b>

	<b>Fair Value Measurements at October 27, 2013</b>			
	<b>Fair Value at October 27, 2013</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>
<i>(in thousands)</i>				
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 434,014	\$ 434,014	\$ -	\$ -
Other trading securities (2)	114,300	38,489	75,811	-
Commodity derivatives (3)	6,086	6,086	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 554,400</b>	<b>\$ 478,589</b>	<b>\$ 75,811</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 52,771	\$ 21,257	\$ 31,514	\$ -
<b>Total Liabilities at Fair Value</b>	<b>\$ 52,771</b>	<b>\$ 21,257</b>	<b>\$ 31,514</b>	<b>\$ -</b>



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

- (1) The Company's cash equivalents consist primarily of money market funds rated AAA, and other highly liquid investment accounts. As these investments have a maturity date of three months or less, the carrying value approximates fair value.
- (2) The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A majority of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these

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

(3) The Company's commodity derivatives represent futures contracts used in its hedging or other programs to offset price fluctuations associated with purchases of corn and soybean meal, and to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The Company's futures contracts for corn and soybean meal are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of January 26, 2014, the Company has recognized the right to reclaim cash collateral of \$34.1 million from various counterparties. As of October 27, 2013, the Company had recognized the right to reclaim cash collateral of \$35.7 million from various counterparties.

The Company's financial assets and liabilities also include accounts receivable, accounts payable, and other liabilities, for which carrying value approximates fair value. The Company does not carry its long-term debt at fair value in its Consolidated Statements of Financial Position. Based on borrowing rates available to the Company for long-term financing with similar terms and average maturities, the fair value of long-term debt, utilizing discounted cash flows (Level 2), was \$262.0 million as of January 26, 2014, and \$261.7 million as of October 27, 2013.

In accordance with the provisions of ASC 820, the Company also measures certain nonfinancial assets and liabilities at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). During the first quarter ended January 26, 2014, and January 27, 2013, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

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

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

	Pension Benefits Three Months Ended		Post-retirement Benefits Three Months Ended	
	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
<u>(in thousands)</u>				
Service cost	\$ 6,503	\$ 7,745	\$ 483	\$ 612

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Interest cost	13,374	11,922	3,785	3,694
Expected return on plan assets	(21,115)	(18,286)	-	-
Amortization of prior service cost	(1,243)	(1,270)	(334)	(265)
Recognized actuarial loss (gain)	3,182	8,505	(1)	1,913
Net periodic cost	\$ 701	\$ 8,616	\$ 3,933	\$ 5,954

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**NOTE L**

**INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at January 26, 2014, recorded in other long-term liabilities was \$24.6 million, of which \$16.3 million would impact the Company's effective tax rate if recognized. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense, with \$0.4 million included in expense in the first quarter of fiscal 2014. The amount of accrued interest and penalties at January 26, 2014, associated with unrecognized tax benefits was \$3.4 million.

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

**NOTE M**

**SEGMENT REPORTING**

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

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

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

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

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

The International & Other segment includes the Hormel Foods International operating segment, which manufactures, markets, and sells Company products internationally. This segment also includes the results from the Company's international joint ventures and miscellaneous corporate sales. This segment was previously the All Other segment, and was renamed in the second quarter of fiscal 2013, with no change in the composition of the segment.

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.

<u>(in thousands)</u>	<b>Three Months Ended</b>	
	<b>January 26, 2014</b>	<b>January 27, 2013</b>
<b>Sales to Unaffiliated Customers</b>		
Grocery Products	\$ 401,520	\$ 334,140
Refrigerated Foods	1,128,421	1,063,401
Jennie-O Turkey Store	399,400	390,334
Specialty Foods	195,979	233,845
International & Other	117,352	94,521
Total	\$ 2,242,672	\$ 2,116,241
<b>Intersegment Sales</b>		
Grocery Products	\$ -	\$ -
Refrigerated Foods	5,746	2,443
Jennie-O Turkey Store	33,129	30,421
Specialty Foods	34	31
International & Other	-	-
Total	\$ 38,909	\$ 32,895
Intersegment elimination	(38,909)	(32,895)
Total	\$ -	\$ -
<b>Net Sales</b>		
Grocery Products	\$ 401,520	\$ 334,140
Refrigerated Foods	1,134,167	1,065,844
Jennie-O Turkey Store	432,529	420,755
Specialty Foods	196,013	233,876
International & Other	117,352	94,521
Intersegment elimination	(38,909)	(32,895)
Total	\$ 2,242,672	\$ 2,116,241
<b>Segment Operating Profit</b>		
Grocery Products	\$ 56,342	\$ 49,913
Refrigerated Foods	85,299	53,790
Jennie-O Turkey Store	59,545	58,945
Specialty Foods	21,255	23,761
International & Other	22,557	17,111
Total segment operating profit	\$ 244,998	\$ 203,520
Net interest and investment expense (income)	1,921	1,284
General corporate expense	8,916	6,644
Noncontrolling interest	1,110	1,329
Earnings before income taxes	\$ 235,271	\$ 196,921

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

**CRITICAL ACCOUNTING POLICIES**

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

**RESULTS OF OPERATIONS**

**Overview**

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

The Company reported net earnings per diluted share of \$0.57 for the first quarter of fiscal 2014, compared to \$0.48 per diluted share in the first quarter of fiscal 2013. Significant factors impacting the quarter were:

- The Refrigerated Foods segment delivered segment profit gains driven by positive pork operating margins and growth in both the retail and foodservice value-added franchises.
- Grocery Products profits were positively impacted by strong sales of *SKIPPY* peanut butter products.
- The International & Other segment delivered a solid quarter driven by strong export sales of the *SPAM* family of products and *SKIPPY* peanut butter products.
- Jennie-O Turkey Store segment profit improved slightly as more favorable feed costs were mostly offset by weaker live production performance due to sustained extremely cold weather.
- Profitability decreased for Specialty Foods driven by the July 2013 expiration of the agreement allowing DCB to sell certain sugar substitutes in the foodservice trade channels.

**Consolidated Results**

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Net earnings attributable to the Company for the first quarter of fiscal 2014 increased 18.2 percent to \$153.3 million from \$129.7 million in the same quarter of fiscal 2013. Diluted earnings per share for the quarter increased to \$0.57 from \$0.48 in the first quarter of fiscal 2013.

Net sales for the first quarter of fiscal 2014 increased 6.0 percent to a record \$2.24 billion from \$2.12 billion in the first quarter of fiscal 2013, as four out of the five reporting segments of the Company experienced sales growth over the prior year first quarter. Tonnage increased 2.4 percent to 1.27 billion lbs. for the first quarter compared to 1.24 billion lbs. in the same quarter of last year.

Net sales were enhanced by the addition of the *SKIPPY* peanut butter business. These sales contributed an incremental \$86.5 million of net sales and 57.1 million lbs. for the quarter, primarily in the Grocery Products and International & Other segments. Value-added sales growth for Refrigerated Foods and Jennie-O Turkey Store were also key drivers of the increase for the first quarter. Additionally, strong export sales of the *SPAM* family of products provided notable growth for the Company's international business.

Gross profit for the first quarter of fiscal 2014 was \$398.6 million compared to \$344.2 million for the first quarter last year. Gross profit as a percentage of net sales increased to 17.8 percent for the first quarter of fiscal 2014 from 16.3 percent in the same quarter of fiscal 2013. Positive pork operating margins for Refrigerated Foods and strong export sales of the *SPAM* family of products for the International & Other segment enhanced the margin gains. Additional margins from *SKIPPY* peanut butter sales boosted results for both the Grocery Products and International & Other segments. More favorable feed costs experienced during the quarter for Jennie-O Turkey Store were offset by weaker live production performance driven by the extreme, sustained cold weather. The Specialty Foods segment delivered lower margins while rebuilding its product portfolio following the expiration of the agreement allowing DCB to sell certain sugar substitutes into foodservice trade channels.



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The Company expects continued momentum for Refrigerated Foods heading into the second quarter. Tighter pork raw material supplies are anticipated due to the Porcine Epidemic Diarrhea Virus (PEDv) impact, but the overall impact to the industry remains unknown. The impact of unusually cold weather and high fuel costs will continue to inflate costs of goods for Jennie-O Turkey Store in the second and third quarters. The Grocery Products and International & Other segments will benefit from a full year of *SKIPPY* peanut butter sales. Sales and margin growth are expected across the Company's value-added product lines as the Company continues to generate growth with innovative new products.

Selling, general and administrative expenses for the first quarter of fiscal 2014 were \$166.2 million compared to \$155.8 million in the prior year. Selling, general and administrative expenses as a percentage of net sales remained flat at 7.4 percent for both the first quarter of 2014 and 2013. Advertising expenses increased \$11.4 million in the first quarter of fiscal 2014 as compared to the prior year. The increase was a result of the new "Make the Switch" advertising campaign for Jennie-O Turkey Store and the national advertising campaign for *Hormel REV* snack wraps. The Company expects selling, general and administrative expenses to be between 7.3 percent and 7.6 percent for the full year in fiscal 2014.

Equity in earnings of affiliates was \$4.7 million for the first quarter of fiscal 2014 compared to \$9.8 million in the first quarter last year. Unfavorable exchange rates and lower results from the Company's 50 percent owned MegaMex joint venture reflecting higher input costs drove the decrease for fiscal 2014 compared to the prior year.

The effective tax rate for the first quarter of fiscal 2014 was 34.3 percent compared to 33.5 percent for the comparable period of fiscal 2013. The higher tax rate for the first quarter is primarily due to a net favorable discrete item in the first quarter of fiscal 2013 related to the reinstatement of the research and development credit for calendar year 2012. The Company expects a full-year effective tax rate between 34.0 and 35.0 percent for fiscal 2014.

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.

<u>(in thousands)</u>	<b>Three Months Ended</b>		<b>% Change</b>
	<b>January 26, 2014</b>	<b>January 27 2013</b>	
<b>Net Sales</b>			
Grocery Products	\$ 401,520	\$ 334,140	20.2
Refrigerated Foods	1,128,421	1,063,401	6.1
Jennie-O Turkey Store	399,400	390,334	2.3
Specialty Foods	195,979	233,845	(16.2)
International & Other	117,352	94,521	24.2
Total	\$ 2,242,672	\$ 2,116,241	6.0
<b>Segment Operating Profit</b>			
Grocery Products	\$ 56,342	\$ 49,913	12.9
Refrigerated Foods	85,299	53,790	58.6
Jennie-O Turkey Store	59,545	58,945	1.0
Specialty Foods	21,255	23,761	(10.5)
International & Other	22,557	17,111	31.8
Total segment operating profit	\$ 244,998	\$ 203,520	20.4
Net interest and investment expense (income)	1,921	1,284	49.6
General corporate expense	8,916	6,644	34.2
Noncontrolling interest	1,110	1,329	(16.5)
Earnings before income taxes	\$ 235,271	\$ 196,921	19.5

**Grocery Products**

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

Grocery Products net sales and tonnage increased 20.2 percent and 24.0 percent, respectively, for the first quarter of fiscal 2014 compared to the same period in fiscal 2013. The comparative results reflect the addition of the *SKIPPY* peanut butter business acquired at the beginning of the second quarter of fiscal 2013. This business contributed an incremental \$73.3 million of net sales and 49.1 million lbs. to the top-line results for the quarter.

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Improved sales results in other key items in the first quarter, including *Hormel* chili and bacon toppings and the *Herdez* Mexican products within the Company's MegaMex Foods joint venture, partially offset sales declines in categories such as the *SPAM* family of products and the *Hormel Compleats* line of microwave meals.

Segment profit for Grocery Products increased 12.9 percent for the first quarter compared to the prior year results. Along with the positive performance from the *SKIPPY* peanut butter products, profit results for the first quarter benefitted from volume increases in core products noted above. Higher pork and beef input costs compressed margins for the *SPAM* family of products, *Hormel* chili, and *Don Miguel* frozen Mexican foods.

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The Company expects continued top-line growth for Grocery Products in the second quarter of the year, driven by national advertising of the *SPAM* family of products and strong promotional support for the MegaMex portfolio and *Hormel Compleats* microwave meals. Commodity cost volatility remains a concern and pricing actions will be implemented in the second quarter to protect margins where possible.

**Refrigerated Foods**

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

Net sales for the Refrigerated Foods segment increased 6.1 percent and tonnage decreased 1.4 percent for the first quarter of fiscal 2014, compared to the first quarter of fiscal 2013. On the retail side, sales gains within the Meat Products business unit were generated on *Black Label* bacon items, *Hormel REV* snack wraps, and *Lloyd's* ribs. Within the Foodservice business unit, sales of *Hormel Fire Braised* meats and *Old Smokehouse* pecanwood smoked bacon led the sales gains for the quarter. The planned reductions in the Company's feed sales business beginning late in the first quarter of fiscal 2013 and the increased internal utilization of raw materials impacted volume comparisons in the quarter.

Segment profit for Refrigerated Foods increased 58.6 percent for the first quarter compared to the prior year. Higher pork operating margins and continued strong demand for bacon products drove the bottom-line results for the quarter. Solid growth in the value-added Meat Products and Foodservice businesses also contributed to the profitability, offsetting lower results in the Affiliated Business Units.

Looking forward, the Company expects favorable pork operating margins and continued solid performance from its value-added product lines within Refrigerated Foods. The spread of PEDv in the industry remains a concern as it has impacted the Company's internal farm operations and several of the Company's independent hog suppliers. The Company is closely monitoring the effects of PEDv on pork raw material supplies and is making plans to meet customer needs as supply tightens over the next several months.

**Jennie-O Turkey Store**

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

JOTS net sales increased 2.3 percent while tonnage decreased 0.5 percent for the first quarter of fiscal 2014, compared to the first quarter of fiscal 2013. The top-line growth was primarily driven by increased sales of value-added product lines. Strong sales of *Jennie-O Turkey Store* lean ground turkey chubs and tray pack items were aided by a new "Make the Switch" advertising campaign featuring lean ground turkey that kicked off in January. Timing differences of whole bird shipments for the holiday season accounted for the year-over-year volume decreases for the quarter.

Segment profit for JOTS increased 1.0 percent for the first quarter of fiscal 2014. In addition to value-added growth, the segment also benefitted from more favorable feed costs and improved commodity pricing during the quarter. These gains offset weaker live production performance due to the sustained extremely cold temperatures experienced.

Looking ahead in fiscal 2014, the benefit of the *Make the Switch* advertising campaign is expected to continue to drive growth in the lean ground turkey chubs and tray pack items. The unusually cold weather is driving up the cost of fuels significantly, which will continue to inflate costs at JOTS in the second and third quarters.

### **Specialty Foods**

The Specialty Foods segment includes the Diamond Crystal Brands (DCB), Century Foods International (CFI), and Hormel Specialty Products (HSP) operating segments. This segment consists of the packaging and sale of

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private label shelf stable products, nutritional products, sugar, and condiments to industrial, retail, and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

Specialty Foods net sales and tonnage decreased 16.2 percent and 9.6 percent, respectively, compared to the same quarter of fiscal 2013. Sales declines were driven by the expiration of the agreement in July 2013 allowing DCB to sell certain sugar substitutes into foodservice trade channels. Softer sales of nutritional items at CFI also contributed to the year-over-year decline. HSP posted overall sales gains led by sales of canned meats for the quarter.

Segment profit for Specialty Foods decreased 10.5 percent compared to the prior year first quarter. The results were primarily driven by the expiration of the sugar substitute agreement noted above. Unusually strong nutritional and ready-to-drink sales posted a year ago created difficult comparisons for CFI also contributing to the decline. HSP was also challenged with higher raw material costs in the quarter, partially offset by favorable conditions of a contract manufacturing agreement.

Looking forward in fiscal 2014, the Company anticipates continued sales and profit declines due to the expiration of the sugar substitute agreement, but is focused on rebuilding the product portfolio within the segment as quickly as possible.

**International & Other**

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

International & Other net sales increased 24.2 percent for the first quarter of fiscal 2014 compared to the same quarter of fiscal 2013. Strong export sales of the *SPAM* family of products drove top-line results for the quarter. The addition of worldwide *SKIPPY* sales also enhanced the top-line results, contributing \$11.9 million of net sales and 7.2 million lbs. in the quarter.

Segment profit also improved in the first quarter of fiscal 2014, increasing 31.8 percent compared to prior year results. The improved bottom-line results were primarily attributable to strong exports of the *SPAM* family of products. The positive performance from the *SKIPPY* peanut butter products further enhanced bottom-line results despite one time closing and start-up costs associated with the *SKIPPY* China purchase. Partially offsetting these gains were lower overall results from the Company's international joint ventures.

Looking ahead, the Company expects continued significant growth in the International & Other segment. Strong export *SPAM* sales and margins along with positive results from the Company's China operations are expected, coupled with a full year of *SKIPPY* product sales.

**Unallocated Income and Expenses**

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

Net interest and investment expense (income) for the first quarter of fiscal 2014 was a net expense of \$1.9 million, compared to a net expense of \$1.3 million in the first quarter of fiscal 2013. The increase was driven by lower returns on the Company's rabbi trust for supplemental executive retirement plans, partially offset by improved currency exchange results during the quarter. Interest expense was flat with the prior year at \$3.1 million. The Company anticipates that interest expense will approximate \$12.0 to \$14.0 million for fiscal 2014.

General corporate expense for the first quarter of fiscal 2014 was \$8.9 million compared to \$6.6 million for the comparable period of fiscal 2013. Several factors affected general corporate expense which, in aggregate,

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resulted in higher expenses. No single factor was material in relationship to the total expenses incurred in the first quarter.

Net earnings attributable to the Company's noncontrolling interests were \$1.1 million for the first quarter of fiscal 2014, compared to \$1.3 million in the first quarter of fiscal 2013. The change largely reflects decreases in performance from the Company's Precept Foods business, partially offset by gains in the Company's China operations compared to the prior year.

**Related Party Transactions**

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

**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$639.8 million at the end of the first quarter of fiscal year 2014 compared to \$887.7 million at the end of the comparable fiscal 2013 period.

Cash provided by operating activities was \$314.3 million in the first quarter of fiscal 2014 compared to \$141.8 million in the same period of fiscal 2013. Increased earnings and favorable overall changes in working capital balances were the primary drivers of the improved cash flows.

Cash used in investing activities was \$70.1 million in the first quarter of fiscal 2014 compared to cash provided by investing activities of \$66.3 million in the comparable quarter of fiscal 2013. During the first quarter of fiscal 2014, the Company spent \$41.4 million to purchase the China based *SKIPPY* peanut butter business in Weifang, China from Unilever United States Inc. This purchase follows the acquisition of the United States based *SKIPPY* peanut butter business during the second quarter of fiscal 2013. In anticipation of that purchase in the prior year, the Company liquidated its marketable securities portfolio at the end of the first quarter of fiscal 2013, which generated \$77.6 million in cash. Additionally, capital expenditures increased \$15.0 million in the first quarter of fiscal 2014 compared to the prior year. The Company currently estimates its fiscal 2014 capital expenditures will be between \$130.0 and \$140.0 million.

Cash used in financing activities was \$37.3 million in the first quarter of fiscal 2014 compared to \$3.0 million in the same period of fiscal 2013. Proceeds generated from the Company's stock option plan exercises decreased \$19.8 million in the first quarter of fiscal 2014 compared to the prior year. The Company did not repurchase any of its common stock in the first quarter of fiscal 2014 or fiscal 2013. 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.



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Cash dividends paid to the Company's shareholders continue to be an ongoing financing activity for the Company. Dividends paid in the first quarter of fiscal 2014 were \$44.8 million compared to \$39.4 million in the comparable period of fiscal 2013. For fiscal 2014, the annual dividend rate has been increased to \$0.80 per share, representing the 48th consecutive annual dividend increase. The Company has paid dividends for 342 consecutive quarters and expects to continue doing so.

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

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

Maximizing the value returned to shareholders through dividend payments remains a priority in fiscal 2014. A strong balance sheet and free cash flow continue to leave the Company well positioned to take advantage of

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strategic acquisition opportunities. Additional share repurchase activity and capital spending to enhance and expand current operations is also expected to continue throughout the year.

**Contractual Obligations and Commercial Commitments**

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at January 26, 2014, was \$24.6 million.

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

**Off-Balance Sheet Arrangements**

As of January 26, 2014, and October 27, 2013, the Company had \$42.5 million and \$42.6 million, respectively, of standby letters of credit issued on its behalf. The standby letters of credit are primarily related to the Company's self-insured workers' compensation programs. However, that amount also includes \$4.9 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.

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.

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

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of January 26, 2014, was \$(7.2) million compared to \$(10.9) million as of October 27, 2013.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's January 26, 2014, open contracts by \$10.5 million, which in turn would lower the Company's future cost of purchased hogs by a similar amount.

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

To reduce the Company's exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future direct grain purchases. This program currently utilizes corn futures for JOTS, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized loss of \$(9.6) million, before tax, on the Consolidated Statements of Financial Position as of January 26, 2014, compared to an unrealized loss of \$(6.3) million, before tax, as of October 27, 2013.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's January 26, 2014, open grain contracts by \$7.1 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 \$5.8 million. The fair value of the Company's long-term debt was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

**Investments:** The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. As of January 26, 2014, the balance of these securities totaled \$114.8 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 the value of the investments not held in fixed income funds would have a direct negative

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impact to the Company's pretax earnings of approximately \$3.8 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 quarter of fiscal year 2014, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is a party to various legal proceedings related to the on-going operation of its business, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws, employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its

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



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**Item 1A. Risk Factors**

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

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

- § food spoilage;
- § food contamination caused by disease-producing organisms or pathogens, such as *Listeria monocytogenes*, *Salmonella*, and pathogenic *E coli*;
- § food allergens;
- § nutritional and health-related concerns;
- § federal, state, and local food processing controls;
- § consumer product liability claims;
- § product tampering; and
- § the possible unavailability and/or expense of liability insurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Market demand for the Company's products may fluctuate.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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*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 October 27, 2013, the Company had approximately 19,700 employees worldwide, of which approximately 5,600 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. The union contract at the Company's facility in San Leandro, California will expire during fiscal 2014 and negotiations have not yet been initiated. This contract covers approximately 102 employees.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities in the First Quarter of Fiscal 2014**

<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>
October 28, 2013 – December 1, 2013	57	\$ 42.78		9,445,200
December 2, 2013 December 29, 2013	30	46.08		9,445,200
December 30, 2013 – January 26, 2014				9,445,200
Total	87	\$ 43.92		

<sup>1</sup>The 87 shares repurchased during the first quarter, other than through publicly announced plans or programs, represent purchases for a Company employee award program.

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



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**Item 6. Exhibits**

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

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**SIGNATURES**

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

**HORMEL FOODS CORPORATION**

(Registrant)

Date: March 7, 2014

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

Date: March 7, 2014

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