

HORMEL FOODS CORP /DE/
Form 10-Q
June 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 26, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

55912-3680
(Zip Code)

(507) 437-5611

(Registrant's telephone number, including area code)

None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X YES NO

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

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

Large accelerated filer X Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Class	Outstanding at May 31, 2015
Common Stock	\$.0293 par value 264,275,076
Common Stock Non-Voting	\$.01 par value -0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	April 26, 2015 (Unaudited)	October 26, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 624,395	\$ 334,174
Accounts receivable	578,726	609,526
Inventories	963,481	1,054,552
Income taxes receivable	28,739	25,678
Deferred income taxes	86,853	86,853
Prepaid expenses	14,546	15,250
Other current assets	5,691	6,738
TOTAL CURRENT ASSETS	2,302,431	2,132,771
GOODWILL	1,228,933	1,226,406
OTHER INTANGIBLES	550,854	554,890
PENSION ASSETS	139,457	130,284
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	264,054	264,451
OTHER ASSETS	147,201	145,050
PROPERTY, PLANT AND EQUIPMENT		
Land	61,426	61,809
Buildings	807,308	803,722

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Equipment	1,652,403		1,597,044
Construction in progress	83,382		119,657
	2,604,519		2,582,232
Less allowance for depreciation	(1,614,451)		(1,580,465)
	990,068		1,001,767
 TOTAL ASSETS	 \$ 5,622,998	 \$	 5,455,619

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)**

	April 26, 2015 (Unaudited)	October 26, 2014
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 385,855	\$ 484,042
Accrued expenses	63,619	76,836
Accrued workers compensation	38,100	35,406
Accrued marketing expenses	132,562	89,561
Employee related expenses	177,699	209,874
Taxes payable	5,792	5,507
Interest and dividends payable	66,555	53,466
TOTAL CURRENT LIABILITIES	870,182	954,692
 LONG-TERM DEBT less current maturities	 250,000	 250,000
 PENSION AND POST-RETIREMENT BENEFITS	 506,742	 502,693
 OTHER LONG-TERM LIABILITIES	 108,427	 112,176
 DEFERRED INCOME TAXES	 43,832	 24,002
 SHAREHOLDERS' INVESTMENT		
Preferred stock, par value \$.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value \$.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value \$.0293 a share authorized 800,000,000 shares; issued 264,173,415 shares April 26, 2015		
issued 263,613,201 shares October 26, 2014	7,740	7,724
Additional paid-in capital	6,879	-
Accumulated other comprehensive loss	(199,757)	(207,700)
Retained earnings	4,025,770	3,805,654
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	3,840,632	3,605,678
NONCONTROLLING INTEREST	3,183	6,378
TOTAL SHAREHOLDERS INVESTMENT	3,843,815	3,612,056
 TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	 \$ 5,622,998	 \$ 5,455,619

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HORMEL FOODS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Net sales	\$ 2,279,345	\$ 2,244,866	\$ 4,674,418	\$ 4,487,538
Cost of products sold	1,819,789	1,866,108	3,770,257	3,710,138
GROSS PROFIT	459,556	378,758	904,161	777,400
Selling, general and administrative	189,733	165,785	370,032	331,974
Equity in earnings of affiliates	7,874	3,583	9,534	8,322
OPERATING INCOME	277,697	216,556	543,663	453,748
Other income and expense:				
Interest and investment income (loss)	1,117	(306)	2,266	867
Interest expense	(3,083)	(3,093)	(6,161)	(6,187)
EARNINGS BEFORE INCOME TAXES	275,731	213,157	539,768	448,428
Provision for income taxes	95,296	72,451	186,903	153,264
NET EARNINGS	180,435	140,706	352,865	295,164
Less: Net earnings attributable to noncontrolling interest	234	616	946	1,726
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	\$ 180,201	\$ 140,090	\$ 351,919	\$ 293,438
NET EARNINGS PER SHARE:				
BASIC	\$ 0.68	\$ 0.53	\$ 1.33	\$ 1.11
DILUTED	\$ 0.67	\$ 0.52	\$ 1.30	\$ 1.09

WEIGHTED-AVERAGE SHARES OUTSTANDING:

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BASIC	264,028	263,926	263,852	263,839
DILUTED	270,444	270,410	270,253	270,317
DIVIDENDS DECLARED PER SHARE:	\$ 0.25	\$ 0.20	\$ 0.50	\$ 0.40

See Notes to Consolidated Financial Statements

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		Three Months Ended		Six Months Ended	
		April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
NET EARNINGS		\$ 180,435	\$ 140,706	\$ 352,865	\$ 295,164
Other comprehensive (loss) income, net of tax:					
Foreign currency translation		(599)	651	178	(1,640)
Pension and other benefits		1,905	988	3,802	2,007
Deferred hedging		(1,449)	6,964	3,557	6,492
	TOTAL OTHER COMPREHENSIVE				
	(LOSS) INCOME	(143)	8,603	7,537	6,859
	COMPREHENSIVE INCOME	180,292	149,309	360,402	302,023
Less:	Comprehensive income attributable to noncontrolling interest	206	551	935	1,689
	COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	\$ 180,086	\$ 148,758	\$ 359,467	\$ 300,334

See Notes to Consolidated Financial Statements

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	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 27, 2013	\$ 7,725	\$ -	\$ -	\$ 3,452,529	\$ (149,214)	\$ 5,539	\$ 3,316,579
Net earnings				602,677		3,349	606,026
Other comprehensive loss					(58,486)	(10)	(58,496)
Purchases of common stock		(58,937)					(58,937)
Stock-based compensation expense	1		14,392				14,393
Exercise of stock options/nonvested shares	35		6,068				6,103
Shares retired	(37)	58,937	(20,460)	(38,440)			-
Distribution to noncontrolling interest						(2,500)	(2,500)
Declared cash dividends \$.80 per share				(211,112)			(211,112)
Balance at October 26, 2014	\$ 7,724	\$ -	\$ -	\$ 3,805,654	\$ (207,700)	\$ 6,378	\$ 3,612,056
Net earnings				351,919		946	352,865
Other comprehensive income (loss)					7,548	(11)	7,537
Stock-based compensation expense			12,549				12,549
Exercise of stock options/nonvested shares	16		6,211				6,227
Purchase of additional ownership from noncontrolling interest			(11,881)		395	(2,549)	(14,035)
Distribution to noncontrolling interest						(1,581)	(1,581)
Declared cash dividends \$.50 per share				(131,803)			(131,803)
Balance at April 26, 2015	\$ 7,740	\$ -	\$ 6,879	\$ 4,025,770	\$ (199,757)	\$ 3,183	\$ 3,843,815

See Notes to Consolidated Financial Statements

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	Six Months Ended	
	April 26, 2015	April 27, 2014
OPERATING ACTIVITIES		
Net earnings	\$ 352,865	\$ 295,164
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	61,760	59,049
Amortization of intangibles	3,967	4,635
Equity in earnings of affiliates, net of dividends	487	1,702
Provision for deferred income taxes	13,441	2,639
Gain on property/equipment sales and plant facilities	(5,129)	(644)
Non-cash investment activities	(2,256)	(582)
Stock-based compensation expense	12,549	10,944
Excess tax benefit from stock-based compensation	(10,760)	(10,038)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	27,316	36,339
Decrease (increase) in inventories	90,131	(82,840)
Decrease in prepaid expenses and other current assets	17,714	9,284
Increase in pension and post-retirement benefits	1,191	537
Decrease in accounts payable and accrued expenses	(118,875)	(51,154)
Other	1,336	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	445,737	275,035
INVESTING ACTIVITIES		
Acquisitions of businesses/intangibles	-	(41,502)
Purchases of property/equipment	(54,984)	(77,063)
Proceeds from sales of property/equipment	11,050	6,231
Decrease (increase) in investments, equity in affiliates, and other assets	5,379	(111)
NET CASH USED IN INVESTING ACTIVITIES	(38,555)	(112,445)
FINANCING ACTIVITIES		
Dividends paid on common stock	(118,715)	(97,594)
Share repurchase	-	(15,126)
Proceeds from exercise of stock options	5,999	5,546
Excess tax benefit from stock-based compensation	10,760	10,038
Payment to noncontrolling interest	(11,702)	-
Distribution to noncontrolling interest	(1,581)	-
NET CASH USED IN FINANCING ACTIVITIES	(115,239)	(97,136)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,722)	(138)
INCREASE IN CASH AND CASH EQUIVALENTS	290,221	65,316
Cash and cash equivalents at beginning of year	334,174	434,014
CASH AND CASH EQUIVALENTS AT END OF QUARTER	\$ 624,395	\$ 499,330

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A

GENERAL

Basis of Presentation

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

Investments

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Securities held by the trust generated gains of \$1.5 million and \$3.0 million for the second quarter and six months ended April 26, 2015, respectively, compared to gains of \$0.9 million and \$1.4 million for the second quarter and six months ended April 27, 2014. The Company has transitioned the majority of this portfolio to more fixed return investments to reduce the exposure to volatility in equity markets.

Supplemental Cash Flow Information

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

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

Guarantees

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

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New Accounting Pronouncements

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

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

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

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

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

consolidated financial statements.

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On August 11, 2014, the Company acquired CytoSport Holdings, Inc. (CytoSport) of Benicia, California for a preliminary purchase price of \$424.3 million in cash. The purchase price is preliminary pending final working capital and other purchase accounting adjustments, and was funded by the Company with cash on hand and by utilizing funds from its revolving line of credit. The agreement provides for a potential additional payment of up to \$20.0 million subject to meeting specific financial performance criteria over the next two years. The Company has recognized \$10.3 million related to this potential payment as of April 26, 2015, based on the current estimated fair value determined by an independent appraisal.

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

(in thousands)	
Accounts receivable	\$ 34,057
Inventory	62,246
Prepaid and other assets	3,133
Property, plant and equipment	8,119
Intangible assets	183,607
Goodwill	267,313
Current liabilities	(52,298)
Long-term liabilities	(25,182)
Deferred taxes	(56,667)
Purchase price	\$ 424,328

The liabilities shown above include \$15.0 million representing potential payments owed under a supplier agreement, which are contingent on future production levels.

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

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the Specialty Foods and International & Other reporting segments. The acquisition contributed \$87.2 million and \$151.4 million of net sales for the second quarter and six months ended April 26, 2015.

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

On November 26, 2013, the Company acquired the China based *SKIPPY* peanut butter business from Conopco, Inc. (doing business as Unilever United States Inc.), of Englewood Cliffs, N.J. for a final purchase price of \$41.9 million in cash. This acquisition includes the Weifang, China manufacturing facility and all sales in Mainland China. The purchase price was funded by the Company with cash on hand.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition and are reflected in the International & Other reporting segment. The acquisition contributed an incremental \$5.9 million of net sales for the first quarter of fiscal 2015.

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

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provides the opportunity to strengthen the Company's global presence and complements the international sales strategy for the *SPAM* family of products.

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

NOTE C**STOCK-BASED COMPENSATION**

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

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at October 26, 2014	17,402	\$ 24.61		
Granted	1,502	52.53		
Exercised	881	18.75		
Forfeited	1	18.71		
Outstanding at April 26, 2015	18,022	\$ 27.22	5.4 years	\$ 497,872
Exercisable at April 26, 2015	13,725	\$ 22.55	4.4 years	\$ 443,314

The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the second quarter and first six months of fiscal years 2015 and 2014, are as follows:

Three Months Ended

Six Months Ended

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	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Weighted-average grant date fair value	\$ 9.00	\$ 9.04	\$ 9.84	\$ 9.68
Intrinsic value of exercised options	\$ 23,409	\$ 18,567	\$ 32,601	\$ 31,969

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

	Three Months Ended		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Risk-free interest rate	1.6%	2.4%	2.1%	2.5%
Dividend yield	1.9%	1.8%	1.9%	1.8%
Stock price volatility	19.0%	20.0%	19.0%	20.0%
Expected option life	8 years	8 years	8 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is

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

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

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 26, 2014	70	\$ 33.58
Granted	37	51.74
Vested	70	33.58
Nonvested at April 26, 2015	37	\$ 51.74

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

	Six Months Ended	
	April 26, 2015	April 27, 2014
Weighted-average grant date fair value	\$ 51.74	\$ 43.46
Fair value of nonvested shares granted	\$ 1,920	\$ 1,440
Fair value of shares vested	\$ 2,347	\$ 2,056

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

	Three Months Ended		Six Months Ended	
<u>(in thousands)</u>	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Stock-based compensation expense recognized	\$ 7,025	\$ 5,987	\$ 12,549	\$ 10,944
Income tax benefit recognized	(2,668)	(2,275)	(4,765)	(4,159)
After-tax stock-based compensation expense	\$ 4,357	\$ 3,712	\$ 7,784	\$ 6,785

At April 26, 2015, there was \$12.3 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.9 years. During the second quarter and six months ended April 26, 2015, cash received from stock option exercises was \$3.9 million and \$6.0 million, respectively, compared to \$2.1 million and \$5.5 million for the second quarter and six months ended April 27, 2014. The total tax benefit to be realized for

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tax deductions from these option exercises for the second quarter and six months ended April 26, 2015, was \$8.9 million and \$12.4 million, respectively, compared to \$7.0 million and \$12.1 million in the comparable periods of fiscal 2014.

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

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

The carrying amounts of goodwill for the second quarter and six months ended April 26, 2015, are presented in the table below. Purchase adjustments during the second quarter relate to the CytoSport acquisition. The reduction in the first six months is entirely due to the sale of an immaterial product line.

<u>(in thousands)</u>	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of January 25, 2015	\$ 322,421	\$ 96,208	\$ 203,214	\$ 470,857	\$ 132,749	\$ 1,225,449
Purchase adjustments	-	-	-	3,484	-	3,484
Balance as of April 26, 2015	\$ 322,421	\$ 96,208	\$ 203,214	\$ 474,341	\$ 132,749	\$ 1,228,933

<u>(in thousands)</u>	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of October 26, 2014	\$ 322,942	\$ 96,643	\$ 203,214	\$ 470,857	\$ 132,750	\$ 1,226,406
Purchase adjustments	-	-	-	3,484	-	3,484
Disposal	(521)	(435)	-	-	(1)	(957)
Balance as of April 26, 2015	\$ 322,421	\$ 96,208	\$ 203,214	\$ 474,341	\$ 132,749	\$ 1,228,933

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

<u>(in thousands)</u>	April 26, 2015		October 26, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	\$ 56,390	\$ (10,666)	\$ 67,540	\$ (19,336)
Proprietary software & technology	14,820	(14,262)	14,820	(13,542)
Formulas & recipes	10,690	(9,559)	17,854	(15,955)
Other intangibles	1,170	(995)	4,746	(4,503)
Total	\$ 83,070	\$ (35,482)	\$ 104,960	\$ (53,336)

Amortization expense was \$1.9 million and \$4.0 million for the second quarter and six months ended April 26, 2015, respectively, compared to \$2.3 million and \$4.6 million for the second quarter and six months ended April 27, 2014.

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

(in thousands)

2015	\$7,554
2016	5,591
2017	5,118
2018	4,876
2019	4,833

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

(in thousands)

	April 26, 2015	October 26, 2014
Brands/tradenames/trademarks	\$ 495,282	\$ 495,282
Other intangibles	7,984	7,984
Total	\$ 503,266	\$ 503,266

Table of Contents**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>	Segment	% Owned	April 26, 2015	October 26, 2014
MegaMex Foods, LLC	Grocery Products	50%	\$ 199,005	\$ 208,221
Foreign Joint Ventures	International & Other	Various (26-50%)	65,049	56,230
Total			\$ 264,054	\$ 264,451

Equity in earnings of affiliates consists of the following:

<u>(in thousands)</u>	Segment	Three Months Ended		Six Months Ended	
		April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
MegaMex Foods, LLC	Grocery Products	\$ 7,157	\$ 4,529	\$ 15,214	\$ 7,057
Foreign Joint Ventures	International & Other	717	(946)	(5,680)	1,265
Total		\$ 7,874	\$ 3,583	\$ 9,534	\$ 8,322

Equity in earnings in the first six months of fiscal 2015 included nonrecurring charges related to the exit from international joint venture businesses. There were \$10.0 million of dividends received from affiliates for both the three and six months ended April 26, 2015, respectively, compared to \$0.0 million and \$10.0 million dividends received for the three and six months ended April 27, 2014.

The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$16.6 million is remaining as of April 26, 2015. This difference is being amortized through equity in earnings of affiliates.

NOTE F**EARNINGS PER SHARE DATA**

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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		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Basic weighted-average shares outstanding	264,028	263,926	263,852	263,839
Dilutive potential common shares	6,416	6,484	6,401	6,478
Diluted weighted-average shares outstanding	270,444	270,410	270,253	270,317

For the second quarter and six months ended April 26, 2015, 1.2 million and 0.9 million weighted-average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share, compared to 1.0 million and 0.8 million for the second quarter and six months ended April 27, 2014.

Table of Contents**NOTE G****ACCUMULATED OTHER COMPREHENSIVE LOSS**

Components of accumulated other comprehensive loss are as follows:

	Foreign		Deferred Gain	Accumulated
<u>(in thousands)</u>	Currency	Pension &	(Loss) -	Other
	Translation	Other Benefits	Hedging	Comprehensive
				Loss
Balance at January 25, 2015	\$ 8,240	\$ (204,089)	\$ (4,188)	\$ (200,037)
Unrecognized gains:				
Gross	(571)		(5,033)	(5,604)
Tax effect			1,900	1,900
Reclassification into net earnings:				
Gross		3,071(1)	2,705(2)	5,776
Tax effect		(1,166)	(1,021)	(2,187)
Net of tax amount	(571)	1,905	(1,449)	(115)
Purchase of additional ownership from noncontrolling interest	395			395
Balance at April 26, 2015	\$ 8,064	\$ (202,184)	\$ (5,637)	\$ (199,757)

	Foreign		Deferred Gain	Accumulated
<u>(in thousands)</u>	Currency	Pension &	(Loss) -	Other
	Translation	Other Benefits	Hedging	Comprehensive
				Loss
Balance at October 26, 2014	\$ 7,480	\$ (205,986)	\$ (9,194)	\$ (207,700)
Unrecognized gains:				
Gross	189	11	(1,370)	(1,170)
Tax effect		(4)	517	513
Reclassification into net earnings:				
Gross		6,118(1)	7,084(2)	13,202
Tax effect		(2,323)	(2,674)	(4,997)
Net of tax amount	189	3,802	3,557	7,548
Purchase of additional ownership from noncontrolling interest	395			395
Balance at April 26, 2015	\$ 8,064	\$ (202,184)	\$ (5,637)	\$ (199,757)

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

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

NOTE H**INVENTORIES**

Principal components of inventories are:

<u>(in thousands)</u>	April 26, 2015	October 26, 2014
Finished products	\$ 567,063	\$ 604,946
Raw materials and work-in-process	215,631	274,105
Materials and supplies	180,787	175,501
Total	\$ 963,481	\$ 1,054,552

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

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

Cash Flow Hedges: The Company currently utilizes corn futures to offset the price fluctuation in the Company's future direct grain purchases, and has historically entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges at least quarterly. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of April 26, 2015, and October 26, 2014, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

Commodity	Volume	
	April 26, 2015	October 26, 2014
Corn	20.4 million bushels	18.3 million bushels

As of April 26, 2015, the Company has included in AOCL, hedging losses of \$9.1 million (before tax) relating to these positions, compared to losses of \$14.8 million (before tax) as of October 26, 2014. The Company expects to recognize the majority of these losses over the next 12 months.

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of April 26, 2015, and October 26, 2014, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

Commodity	Volume	
	April 26, 2015	October 26, 2014
Corn	3.5 million bushels	8.0 million bushels
Lean hogs	0.3 million cwt	0.7 million cwt

Other Derivatives: During fiscal years 2015 and 2014, the Company has held certain futures and options contract positions as part of a merchandising program and to manage the Company's exposure to fluctuations in commodity markets. The Company has not applied hedge accounting to these positions.

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

	Commodity	Volume	
		April 26, 2015	October 26, 2014
Corn		1.9 million bushels	2.9 million bushels

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

		Fair Value (1)	
	Location on Consolidated Statements of Financial Position	April 26, 2015	October 26, 2014
<u>Asset Derivatives:</u>			
Derivatives Designated as Hedges:			
Commodity contracts	Other current assets	\$ (3,354)	\$ (7,124)
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	99	(938)
Total Asset Derivatives		\$ (3,255)	\$ (8,062)

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

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

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1)		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (4)	
	Three Months Ended April 26, 2015	Three Months Ended April 27, 2014		Three Months Ended April 26, 2015	Three Months Ended April 27, 2014	Three Months Ended April 26, 2015	Three Months Ended April 27, 2014
Cash Flow Hedges:							
Commodity contracts	\$ (5,033)	\$ 8,309	Cost of products sold	\$ (2,705)	\$ (2,867)	\$ 0	\$ 517
			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5)	
	Three Months Ended April 26, 2015	Three Months Ended April 27, 2014		Three Months Ended April 26, 2015	Three Months Ended April 27, 2014	Three Months Ended April 26, 2015	Three Months Ended April 27, 2014
Fair Value Hedges:							
Commodity contracts			Cost of products sold	\$ (3,769)	\$ (15,889)	\$ 203	\$ (19)

Gain/(Loss)
Recognized
in Earnings

Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	Three Months Ended	
		April 26, 2015	April 27, 2014
Commodity contracts	Cost of products sold	\$ (264)	\$ 1,206

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

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Six Months Ended		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Six Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(4) Six Months Ended	
	April 26, 2015	April 27, 2014		April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Cash Flow Hedges:							
Commodity contracts	\$ (1,370)	\$ 4,305	Cost of products sold	\$ (7,084)	\$ (6,116)	\$ 0	\$ 223
			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Six Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(5) Six Months Ended	
	April 26, 2015	April 27, 2014		April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Fair Value Hedges:							
Commodity contracts			Cost of products sold	\$ (3,937)	\$ (14,635)	\$ 93	\$ (57)
			Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Six Months Ended			
	April 26, 2015	April 27, 2014		April 26, 2015	April 27, 2014		
Derivatives Not Designated as Hedges:							
Commodity contracts			Cost of products sold	\$ (135)	\$ 689		

- (1) Amounts represent gains or losses in AOCL before tax. See Note G Accumulated Other Comprehensive Loss or the Consolidated Statements of Comprehensive Income for the after-tax impact of these gains or losses on net earnings.
- (2) There were no gains or losses excluded from the assessment of hedge effectiveness during the second quarter or first six months.
- (3) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the second quarter or first six months, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.
- (4) There were no gains or losses resulting from the discontinuance of cash flow hedges during the second quarter or first six months.
- (5) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the second quarter or first six months.

NOTE J

FAIR VALUE MEASUREMENTS

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

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

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

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

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of April 26, 2015, and October 26, 2014, and their level within the fair value hierarchy, are presented in the tables below.

	Fair Value Measurements at April 26, 2015			
	Fair Value at April 26, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>(in thousands)</u>				
Assets at Fair Value:				
Cash and cash equivalents (1)	\$ 624,395	\$ 624,395	\$ -	\$ -
Other trading securities (2)	120,290	40,996	79,294	-
Commodity derivatives (3)	3,088	3,088	-	-
Total Assets at Fair Value	\$ 747,773	\$ 668,479	\$ 79,294	\$ -
Liabilities at Fair Value:				
Deferred compensation (2)	\$ 55,311	\$ 25,314	\$ 29,997	\$ -
Total Liabilities at Fair Value	\$ 55,311	\$ 25,314	\$ 29,997	\$ -

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

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

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

(2) The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A majority of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these funds is set based on a formula using the yield of the general account investment portfolio that supports the fund, adjusted for expenses and other charges. The rate is guaranteed for one year at issue, and may be reset annually on the policy anniversary, subject to a guaranteed minimum rate. As the value is based 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.

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Therefore these securities are classified as Level 1. The related deferred compensation liabilities are included in other long-term liabilities on the Consolidated Statements of Financial Position and are valued based on the underlying investment selections held in each participant's account. Investment options generally mirror those funds held by the rabbi trust, for which there is an active quoted market. Therefore these investment balances are classified as Level 1. The Company also offers a fixed rate investment option to participants. The rate earned on these investments is adjusted annually based on a specified percentage of the United States Internal Revenue Service (I.R.S.) Applicable Federal Rates in effect and therefore these balances are classified as Level 2.

(3) The Company's commodity derivatives represent futures contracts used in its hedging or other programs to offset price fluctuations associated with purchases of corn, and to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The Company's futures contracts for corn are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of April 26, 2015, the Company has recognized the right to reclaim net cash collateral of \$6.3 million from various counterparties (including \$13.7 million of cash less \$7.4 million of realized losses on closed positions). As of October 26, 2014, the Company had recognized the right to reclaim net cash collateral of \$11.5 million from various counterparties (including \$55.6 million of cash less \$44.1 million of realized losses on closed positions).

The Company's financial assets and liabilities also include accounts receivable, accounts payable, and other liabilities, for which carrying value approximates fair value. The Company does not carry its long-term debt at fair value in its Consolidated Statements of Financial Position. Based on borrowing rates available to the Company for long-term financing with similar terms and average maturities, the fair value of long-term debt, utilizing discounted cash flows (Level 2), was \$276.5 million as of April 26, 2015, and \$273.8 million as of October 26, 2014.

In accordance with the provisions of ASC 820, the Company also measures certain nonfinancial assets and liabilities at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). During the six months ended April 26, 2015, and April 27, 2014, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

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

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

(in thousands)	Pension Benefits			
	Three Months Ended		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Service cost	\$ 7,199	\$ 6,477	\$ 14,398	\$ 12,980
Interest cost	13,130	13,219	26,261	26,593
Expected return on plan assets	(22,198)	(20,862)	(44,396)	(41,977)
Amortization of prior service cost	(1,219)	(1,243)	(2,439)	(2,486)
Recognized actuarial loss	4,625	3,171	9,226	6,353

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Net periodic cost	\$	1,537	\$	762	\$	3,050	\$	1,463
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Table of Contents**Post-retirement Benefits**

<u>(in thousands)</u>	Three Months Ended		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Service cost	\$ 443	\$ 483	\$ 885	\$ 966
Interest cost	3,336	3,786	6,672	7,571
Amortization of prior service cost	(334)	(334)	(668)	(668)
Recognized actuarial gain	(1)	-	(1)	(1)
Net periodic cost	\$ 3,444	\$ 3,935	\$ 6,888	\$ 7,868

NOTE L**INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at April 26, 2015, recorded in other long-term liabilities was \$25.3 million, of which \$16.4 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 for both the second quarter and first six months of fiscal 2015. The amount of accrued interest and penalties at April 26, 2015, associated with unrecognized tax benefits was \$3.1 million.

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

The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2008. 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, and Dan's Prize businesses. Through fiscal 2014, this segment also included Precept Foods, LLC, a 50.01 percent owned joint venture that was dissolved at the end of the fiscal year.

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

The Specialty Foods segment includes the Diamond Crystal Brands, CytoSport/Century Foods International, and Hormel Specialty Products operating segments. This segment consists of the packaging and sale of private label shelf stable products, nutritional products, sugar, and condiments to industrial, retail, and foodservice customers.

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This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

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

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

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

(in thousands)	Three Months Ended		Six Months Ended	
	April 26, 2015	April 27, 2014	April 26, 2015	April 27, 2014
Sales to Unaffiliated Customers				
Grocery Products	\$ 397,265	\$ 392,030	\$ 807,016	\$ 793,550
Refrigerated Foods	1,022,511	1,111,244	2,166,726	2,239,665
Jennie-O Turkey Store	438,912	380,425	878,931	779,825
Specialty Foods	287,424	217,176	550,698	413,155
International & Other	133,233	143,991	271,047	261,343
Total	\$ 2,279,345	\$ 2,244,866	\$ 4,674,418	\$ 4,487,538
Intersegment Sales				
Grocery Products	\$ -	\$ -	\$ -	\$ -
Refrigerated Foods	3,560	6,601	7,743	12,347
Jennie-O Turkey Store	36,398	36,870	71,782	69,999
Specialty Foods	25	18	46	52
International & Other	-	-	-	-
Total	\$ 39,983	\$ 43,489	\$ 79,571	\$ 82,398
Intersegment elimination	(39,983)	(43,489)	(79,571)	(82,398)
Total	\$ -	\$ -	\$ -	\$ -
Net Sales				
Grocery Products	\$ 397,265	\$ 392,030	\$ 807,016	\$ 793,550
Refrigerated Foods	1,026,071	1,117,845	2,174,469	2,252,012
Jennie-O Turkey Store	475,310	417,295	950,713	849,824
Specialty Foods	287,449	217,194	550,744	413,207
International & Other	133,233	143,991	271,047	261,343
Intersegment elimination	(39,983)	(43,489)	(79,571)	(82,398)
Total	\$ 2,279,345	\$ 2,244,866	\$ 4,674,418	\$ 4,487,538
Segment Operating Profit				
Grocery Products	\$ 55,327	\$ 54,890	\$ 96,702	\$ 111,232
Refrigerated Foods	114,837	75,397	215,989	160,696
Jennie-O Turkey Store	74,596	52,808	167,616	112,353
Specialty Foods	21,144	19,134	39,720	40,389
International & Other	21,383	20,863	35,767	43,420
Total segment operating profit	\$ 287,287	\$ 223,092	\$ 555,794	\$ 468,090
Net interest and investment expense				
(income)	1,966	3,399	3,895	5,320
General corporate expense	9,824	7,152	13,077	16,068
Noncontrolling interest	234	616	946	1,726
Earnings before income taxes	\$ 275,731	\$ 213,157	\$ 539,768	\$ 448,428

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NOTE N

SUBSEQUENT EVENT

On May 26, 2015, subsequent to the end of the second quarter, the Company announced that it has entered into a definitive agreement to acquire Applegate Farms, LLC (Applegate), of Bridgewater, N.J. for a preliminary purchase price of \$775 million in cash. The Company expects to close the acquisition within 60 days subject to regulatory approvals. The purchase price is expected to be funded by the Company with cash on hand generated from operations and short-term financing.

Applegate® is the No. 1 brand in natural and organic value-added prepared meats and this acquisition would allow the Company to expand the breadth of its protein offerings to provide consumers more choice in that fast growing category. Operating results for this acquisition will be reflected in the Refrigerated Foods reporting segment.

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

CRITICAL ACCOUNTING POLICIES

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

RESULTS OF OPERATIONS

Overview

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

The Company reported net earnings per diluted share of \$0.67 for the second quarter of fiscal 2015, compared to \$0.52 per diluted share in the second quarter of fiscal 2014. Significant factors impacting the quarter were:

- Record net earnings and sales with all five of the Company's reporting segments generating segment profit growth.
- The Refrigerated Foods segment delivered segment profit gains driven by strong value-added product sales and lower pork input costs.
- Jennie-O Turkey Store provided segment profit gains with continued growth of value-added products and lower grain and fuel input costs.
- Grocery Products segment profit benefitted from input cost relief.
- Specialty Foods segment profit benefitted from synergies achieved with the recently acquired CytoSport Holdings, LLC (CytoSport) business.
- International & Other segment profit gains were driven by improved joint venture results despite declines in exports.

Consolidated Results

Net earnings attributable to the Company for the second quarter of fiscal 2015 increased 28.6 percent to \$180.2 million from \$140.1 million in the same quarter of fiscal 2014. Diluted earnings per share for the second quarter increased to \$0.67 from \$0.52 in the second quarter of fiscal 2014. Net earnings attributable to the Company for the first six months of fiscal 2015 increased 19.9 percent to \$351.9 million from \$293.4 million in fiscal 2014. Diluted earnings per share for the same period were \$1.30 in fiscal 2015, compared to \$1.09 in the prior year.

Adjusted⁽¹⁾ net earnings attributable to the Company for the first six months of fiscal 2015 increased 25.3 percent to \$367.5 million from \$293.4 million in the same six months of fiscal 2014. Adjusted⁽¹⁾ diluted earnings per share for the same period increased 24.8 percent to \$1.36 compared to \$1.09 last year.

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

(1)Adjusted net earnings and diluted net earnings per share exclude nonrecurring charges relating to the closure of the Stockton, California, manufacturing facility and the exit from international joint venture businesses in the first quarter of fiscal 2015. The table below shows the calculations to reconcile from the non-GAAP adjusted measures to the GAAP measures.

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Six Months ended April 26, 2015

(In thousands, except per share amounts)

	Non- GAAP Adjusted Earnings	Stockton Plant Closure	International Joint Venture Businesses Exit	GAAP Earnings
Grocery Products	\$ 107,228	\$ (10,526)		\$ 96,702
Refrigerated Foods	215,989			215,989
Jennie-O Turkey Store	167,616			167,616
Specialty Foods	39,720			39,720
International & Other	45,313		\$ (9,546)	35,767
Total segment operating profit				