

HORMEL FOODS CORP /DE/  
Form 10-Q  
September 02, 2016  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended July 24, 2016

or

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

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

Commission File Number: 1-2402

**HORMEL FOODS CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-0319970

(I.R.S. Employer Identification No.)

1 Hormel Place

Austin, Minnesota

(Address of principal executive offices)

55912-3680

(Zip Code)

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(507) 437-5611

(Registrant's telephone number, including area code)

None

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

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

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

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

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

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

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

Class	Outstanding at August 28, 2016	
Common Stock	\$.01465 par value	529,200,858
Common Stock Non-Voting	\$.01 par value	-0-

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(in thousands, except share and per share amounts)

	<b>July 24, 2016</b>		<b>October 25, 2015</b>
	(Unaudited)		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 379,597	\$	347,239
Accounts receivable	564,922		605,689
Inventories	1,034,307		993,265
Income taxes receivable	7,015		6,132
Deferred income taxes	-		86,902
Prepaid expenses	15,832		14,383
Other current assets	8,432		9,422
<b>TOTAL CURRENT ASSETS</b>	<b>2,010,105</b>		<b>2,063,032</b>
<b>DEFERRED INCOME TAXES</b>	<b>13,875</b>		<b>-</b>
<b>GOODWILL</b>	<b>1,921,971</b>		<b>1,699,484</b>
<b>OTHER INTANGIBLES</b>	<b>815,236</b>		<b>827,219</b>
<b>PENSION ASSETS</b>	<b>170,858</b>		<b>132,861</b>
<b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b>	<b>257,061</b>		<b>258,998</b>
<b>OTHER ASSETS</b>	<b>146,273</b>		<b>146,498</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land	67,192		71,192
Buildings	788,308		815,643
Equipment	1,658,308		1,679,100
Construction in progress	181,647		79,964
	2,695,455		2,645,899
Less allowance for depreciation	(1,642,537)		(1,634,160)
	1,052,918		1,011,739

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TOTAL ASSETS	\$	6,388,297	\$	6,139,831
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See Notes to Consolidated Financial Statements

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

(in thousands, except share and per share amounts)

	<b>July 24, 2016</b>		<b>October 25, 2015</b>
	(Unaudited)		
<b>LIABILITIES AND SHAREHOLDERS INVESTMENT</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 414,691	\$	495,317
Short-term debt	145,000		185,000
Accrued expenses	87,838		71,777
Accrued workers compensation	38,296		37,009
Accrued marketing expenses	141,089		119,153
Employee related expenses	214,628		232,309
Taxes payable	7,198		6,764
Interest and dividends payable	79,987		66,696
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,128,727</b>		<b>1,214,025</b>
<b>LONG-TERM DEBT less current maturities</b>	<b>250,000</b>		<b>250,000</b>
<b>PENSION AND POST-RETIREMENT BENEFITS</b>	<b>516,055</b>		<b>509,261</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>99,568</b>		<b>101,056</b>
<b>DEFERRED INCOME TAXES</b>	<b>-</b>		<b>64,096</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 \$.01465 a share authorized 1,600,000,000 shares; issued 529,133,276 shares July 24, 2016	7,752		7,741
issued 528,411,628 shares October 25, 2015			
Additional paid-in capital	-		-
Accumulated other comprehensive loss	(224,361)		(225,668)
Retained earnings	4,607,360		4,216,125
<b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>	<b>4,390,751</b>		<b>3,998,198</b>
<b>NONCONTROLLING INTEREST</b>	<b>3,196</b>		<b>3,195</b>
<b>TOTAL SHAREHOLDERS INVESTMENT</b>	<b>4,393,947</b>		<b>4,001,393</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>	<b>\$ 6,388,297</b>	<b>\$</b>	<b>6,139,831</b>

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\* Shares and par values have been restated, as appropriate, to give effect to the two-for-one stock split distributed on February 9, 2016.

See Notes to Consolidated Financial Statements

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 24, 2016</b>	<b>July 26, 2015*</b>	<b>July 24, 2016</b>	<b>July 26, 2015*</b>
Net sales	\$ 2,302,376	\$ 2,188,587	\$ 6,895,283	\$ 6,863,005
Cost of products sold	1,827,091	1,779,197	5,335,628	5,549,454
<b>GROSS PROFIT</b>	<b>475,285</b>	<b>409,390</b>	<b>1,559,655</b>	<b>1,313,551</b>
Selling, general and administrative	206,876	184,627	627,968	554,659
Goodwill impairment charge	-	-	991	-
Equity in earnings of affiliates	6,381	6,396	27,449	15,930
<b>OPERATING INCOME</b>	<b>274,790</b>	<b>231,159</b>	<b>958,145</b>	<b>774,822</b>
Other income and expense:				
Interest and investment income	2,474	189	3,920	2,455
Interest expense	(3,147)	(3,129)	(9,583)	(9,290)
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>274,117</b>	<b>228,219</b>	<b>952,482</b>	<b>767,987</b>
Provision for income taxes	78,341	81,263	306,155	268,166
<b>NET EARNINGS</b>	<b>195,776</b>	<b>146,956</b>	<b>646,327</b>	<b>499,821</b>
Less: Net earnings attributable to noncontrolling interest	122	18	215	964
<b>NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION</b>	<b>\$ 195,654</b>	<b>\$ 146,938</b>	<b>\$ 646,112</b>	<b>\$ 498,857</b>
<b>NET EARNINGS PER SHARE:</b>				
<b>BASIC</b>	<b>\$ 0.37</b>	<b>\$ 0.28</b>	<b>\$ 1.22</b>	<b>\$ 0.94</b>
<b>DILUTED</b>	<b>\$ 0.36</b>	<b>\$ 0.27</b>	<b>\$ 1.19</b>	<b>\$ 0.92</b>
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING:</b>				
<b>BASIC</b>	<b>529,660</b>	<b>528,516</b>	<b>529,473</b>	<b>527,975</b>
<b>DILUTED</b>	<b>542,163</b>	<b>541,204</b>	<b>542,890</b>	<b>540,738</b>
<b>DIVIDENDS DECLARED PER SHARE:</b>	<b>\$ 0.145</b>	<b>\$ 0.125</b>	<b>\$ 0.435</b>	<b>\$ 0.375</b>

\* Shares and per share figures have been restated to give effect to the two-for-one stock split distributed on February 9, 2016.



See Notes to Consolidated Financial Statements

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>July 24, 2016</b>	<b>July 26, 2015</b>
NET EARNINGS	\$ 195,776	\$ 146,956	\$ 646,327	\$ 499,821
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(2,960)	(1,133)	(4,681)	(955)
Pension and other benefits	(835)	1,904	2,705	5,706
Deferred hedging	5,017	7,168	3,069	10,725
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	1,222	7,939	1,093	15,476
COMPREHENSIVE INCOME	196,998	154,895	647,420	515,297
Less: Comprehensive income attributable to noncontrolling interest	40	43	1	978
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	\$ 196,958	\$ 154,852	\$ 647,419	\$ 514,319

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 Other Comprehensive Income (Loss)	Non- controlling Interest	Total Shareholders Investment
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings			
Balance at October 26, 2014	\$ 7,724	\$ -	\$ -	\$ 3,805,654	\$ (207,700)	\$ 6,378	\$ 3,612,056
Net earnings				686,088		1,176	687,264
Other comprehensive loss					(18,363)	(229)	(18,592)
Purchases of common stock		(24,928)					(24,928)
Stock-based compensation expense	1		15,716				15,717
Exercise of stock options/nonvested shares	28		9,527				9,555
Purchase of additional ownership from noncontrolling interest			(11,881)		395	(2,549)	(14,035)
Shares retired	(12)	24,928	(13,362)	(11,554)			-
Distribution to noncontrolling interest						(1,581)	(1,581)
Declared cash dividends \$ .50 per share*				(264,063)			(264,063)
Balance at October 25, 2015	\$ 7,741	\$ -	\$ -	\$ 4,216,125	\$ (225,668)	\$ 3,195	\$ 4,001,393
Net earnings				646,112		215	646,327
Other comprehensive income (loss)					1,307	(214)	1,093
Purchases of common stock		(44,976)					(44,976)
Stock-based compensation expense	1		16,090				16,091
Exercise of stock options/nonvested shares	28		4,449				4,477
Shares retired	(18)	44,976	(20,539)	(24,419)			-
Declared cash dividends \$ .435 per share				(230,458)			(230,458)
Balance at July 24, 2016	\$ 7,752	\$ -	\$ -	\$ 4,607,360	\$ (224,361)	\$ 3,196	\$ 4,393,947

\* Per share figures have been restated to give effect to the two-for-one stock split distributed on February 9, 2016.



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

	<b>July 24, 2016</b>	<b>July 26, 2015</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 646,327	\$ 499,821
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	89,996	92,842
Amortization of intangibles	6,524	6,185
Goodwill impairment charge	991	-
Equity in earnings of affiliates, net of dividends	(2,905)	21,395
Provision for deferred income taxes	4,428	9,619
Gain on property/equipment sales and plant facilities	138	(6,645)
Non-cash investment activities	(1,247)	(1,198)
Stock-based compensation expense	16,091	14,260
Excess tax benefit from stock-based compensation	(39,190)	(14,139)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	47,767	78,970
(Increase) decrease in inventories	(60,579)	89,375
Decrease in prepaid expenses and other current assets	45,077	45,310
Decrease in pension and post-retirement benefits	(26,266)	(21,575)
Decrease in accounts payable and accrued expenses	(105,466)	(125,311)
Other	-	1,336
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>621,686</b>	<b>690,245</b>
<b>INVESTING ACTIVITIES</b>		
Sale of business	110,149	-
Acquisitions of businesses/intangibles	(281,655)	(768,339)
Purchases of property/equipment	(165,828)	(96,802)
Proceeds from sales of property/equipment	2,590	15,024
Decrease in investments, equity in affiliates, and other assets	6,865	3,424
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(327,879)</b>	<b>(846,693)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term debt	145,000	350,000
Principal payments on short-term debt	(185,000)	-
Dividends paid on common stock	(219,744)	(184,761)
Share repurchase	(44,976)	-
Proceeds from exercise of stock options	9,233	7,837
Excess tax benefit from stock-based compensation	39,190	14,139
Payment to noncontrolling interest	-	(11,702)
Distribution to noncontrolling interest	-	(1,581)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(256,297)</b>	<b>173,932</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(5,152)</b>	<b>(2,489)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>32,358</b>	<b>14,995</b>

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Cash and cash equivalents at beginning of year		347,239		334,174
CASH AND CASH EQUIVALENTS AT END OF QUARTER	\$	379,597	\$	349,169

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 25, 2015, 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 25, 2015. Fiscal 2016 is a 53-week year as compared with fiscal 2015, which was 52 weeks, with the additional week occurring in the fourth quarter of fiscal 2016.

**Stock Split**

On November 25, 2015, the Company's Board of Directors authorized a two-for-one split of the Company's voting common stock, which was subsequently approved by shareholders at the Company's Annual Meeting on January 26, 2016, and effected on January 27, 2016. The Company's voting common stock was reclassified by reducing the par value from \$.0293 per share to \$.01465 per share and the number of authorized shares was increased from 800,000,000 to 1,600,000,000 shares, in order to effect the two-for-one stock split. The Company distributed the additional shares of \$.01465 par value common stock on February 9, 2016, and the shares began trading at the post-split price on February 10, 2016.

Unless otherwise noted, all prior year share amounts and per share calculations throughout this Quarterly Report on Form 10-Q have been restated to reflect the impact of this split, and to provide data on a comparable basis. Such restatements include calculations regarding the Company's weighted average shares, earnings per share, and dividends per share, as well as disclosures regarding the Company's stock-based compensation plans and share repurchase activity.

**Assets Held For Sale**

The Company classifies assets as held for sale when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the business held for sale are then recorded at the lower of their current carrying value or the fair market value, less costs to sell. See additional discussion regarding the Company's assets held for sale in Note E.

### **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 and consist mainly of fixed return investments. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Securities held by the trust generated gains of \$1.2 million and \$2.4 million for the third quarter and nine months ended July 24, 2016, respectively, compared to losses of \$0.6 million and gains of \$2.4 million for the third quarter and nine months ended July 26, 2015.



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**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. 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 interest and investment income (loss).

**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 \$4.0 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.

**New Accounting Pronouncements**

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 adopted the new provisions of this accounting standard at the beginning of fiscal year 2016, and adoption did not 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 (U.S. GAAP) and international financial reporting standards and supersedes ASC 605, *Revenue Recognition*. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. On July 8, 2015, the FASB approved a one-year deferral of the effective date. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. Accordingly, the Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements with a focus on arrangements with customers.

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In April 2015, the FASB updated the guidance within ASC 835, *Interest*. The update provides guidance on simplifying the presentation of debt issuance costs. 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 updated 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 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

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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 updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2016, with no accounting policy change elected.

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 adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2016, and adoption will impact year-end disclosures only and did not have a material impact on its consolidated financial statements.

In November 2015, the FASB updated the guidance within ASC 740, *Balance Sheet Classification of Deferred Taxes*. The update requires all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the new provisions of this accounting standard prospectively at the beginning of fiscal year 2016, and adoption did not have a material impact on its consolidated financial statements.

In February 2016, the FASB updated the guidance within ASC 842, *Leases*. The update requires lessees to put most leases on their balance sheets while recognizing expenses on their income statements in a manner similar to current U.S. GAAP. The guidance also eliminates current real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently assessing the timing and impact of adopting the updated provisions.

In March 2016, the FASB updated the guidance within ASC 718, *Compensation-Stock Compensation*. The update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year. The Company is currently assessing the timing and impact of adopting the updated provisions.

In June 2016, the FASB updated the guidance within ASC 326, *Financial Instruments - Credit Losses*. The update provides guidance on the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, and interim periods therein. The Company is currently assessing the timing and impact of adopting the updated

provisions.

**NOTE B**

**ACQUISITIONS**

On May 26, 2016, the Company acquired Justin's, LLC (Justin's) for a preliminary purchase price of \$281.7 million. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately \$70.0 million. The purchase price is preliminary pending working

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capital and purchase accounting adjustments, and was funded by the Company with cash on hand and by utilizing short-term financing. Primary assets acquired include goodwill, intangibles, and working capital.

Justin's is a pioneer in nut butter-based snacking and this acquisition allows the Company to enhance its presence in the specialty natural and organic nut butter category, complementing the Company's *SKIPPY* peanut butter products.

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 Grocery Products segment.

On July 13, 2015, the Company acquired Applegate Farms, LLC (Applegate) of Bridgewater, New Jersey for a final purchase price of \$774.1 million in cash. The purchase price was funded by the Company with cash on hand and by utilizing short-term financing.

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

The acquisition was accounted for as a business combination using the acquisition method. The Company obtained an independent appraisal. A final allocation of the purchase price to the acquired assets, liabilities, and goodwill is presented in the table below.

(in thousands)

Accounts receivable	\$	25,574
Inventory		22,212
Prepaid and other assets		2,987
Property, plant and equipment		3,463
Intangible assets		275,900
Goodwill		488,235
Current liabilities		(23,420)
Deferred taxes		(20,888)
Purchase price	\$	774,063

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 potential to expand presence in the natural and organic channels and the supply chain for natural and organic products. A portion of the goodwill balance is expected to be deductible for income tax purposes. The goodwill and intangible assets have been allocated to the Refrigerated Foods segment.

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

Pro forma results of operations are not presented, as neither acquisition was considered material, individually or in the aggregate, to the consolidated Company.

**NOTE C            INVENTORIES**

Principal components of inventories are:

<u>(in thousands)</u>		<b>July 24, 2016</b>		<b>October 25, 2015</b>
Finished products	\$	603,864	\$	553,298
Raw materials and work-in-process		250,431		239,174
Materials and supplies		180,012		200,793
Total	\$	1,034,307	\$	993,265

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

The carrying amounts of goodwill for the third quarter and nine months ended July 26, 2016, are presented in the table below. Additions during the third quarter relate to the acquisition of Justin's on May 26, 2016 and are preliminary pending final working capital and purchase accounting adjustments. Reductions during the third quarter are due to the sale of Diamond Crystal Brands (DCB) on May 9, 2016. Impairment charges during the first nine months of fiscal 2016 relate to the write-down of the Company's assets held for sale. See additional discussion regarding the Company's assets held for sale in Note E. The purchase adjustments represent final purchase accounting adjustments related to the Applegate acquisition.

<u>(in thousands)</u>	<b>Grocery Products</b>	<b>Refrigerated Foods</b>	<b>JOTS</b>	<b>Specialty Foods</b>	<b>International &amp; Other</b>	<b>Total</b>
Balance as of						
April 24, 2016	\$ 322,421	\$ 584,561	\$ 203,214	\$ 455,425	\$ 132,749	\$ 1,698,370
Goodwill acquired	273,853	-	-	-	-	273,853
Goodwill sold	-	-	-	(50,134)	-	(50,134)
Purchase adjustments	-	(118)	-	-	-	(118)
Balance as of July 24, 2016	\$ 596,274	\$ 584,443	\$ 203,214	\$ 405,291	\$ 132,749	\$ 1,921,971

<u>(in thousands)</u>	<b>Grocery Products</b>	<b>Refrigerated Foods</b>	<b>JOTS</b>	<b>Specialty Foods</b>	<b>International &amp; Other</b>	<b>Total</b>
Balance as of						
October 25, 2015	\$ 322,421	\$ 584,684	\$ 203,214	\$ 456,416	\$ 132,749	\$ 1,699,484
Goodwill acquired	273,853	-	-	-	-	273,853
Goodwill sold	-	-	-	(50,134)	-	(50,134)
Purchase adjustments	-	(241)	-	-	-	(241)
Impairment charge	-	-	-	(991)	-	(991)
Balance as of July 24, 2016	\$ 596,274	\$ 584,443	\$ 203,214	\$ 405,291	\$ 132,749	\$ 1,921,971

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

<u>(in thousands)</u>	<b>July 24, 2016</b>		<b>October 25, 2015</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Customer lists/relationships	\$ 82,440	\$ (19,229)	\$ 83,190	\$ (13,939)
Formulas and recipes	1,950	(1,744)	7,490	(6,865)
Proprietary software and technology	-	-	7,010	(6,901)
Other intangibles	2,120	(1,360)	2,370	(1,195)
Total	\$ 86,510	\$ (22,333)	\$ 100,060	\$ (28,900)

Amortization expense was \$2.5 million and \$6.5 million for the third quarter and nine months ended July 24, 2016, respectively, compared to \$2.3 million and \$6.3 million for the third quarter and nine months ended July 26, 2015.





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Estimated annual amortization expense for the five fiscal years after October 25, 2015, is as follows:

(in millions)

2016	\$ 8.0
2017	7.5
2018	7.0
2019	7.0
2020	6.8

The carrying amounts for indefinite-lived intangible assets are presented in the table below. Reductions during the third quarter are due to the sale of the Company's assets held for sale on May 9, 2016.

(in thousands)

	<b>July 24, 2016</b>		<b>October 25, 2015</b>	
Brands/tradenames/trademarks	\$	743,075	\$	748,075
Other intangibles		7,984		7,984
Total	\$	751,059	\$	756,059

**NOTE E ASSETS HELD FOR SALE**

In fiscal year 2015, the Company began actively marketing a portion of DCB. Through this process, the Company identified the specific assets and liabilities to be sold and allocated goodwill based on the relative fair values of the assets held for sale and the assets that will be retained by the Company. In the second quarter of fiscal 2016, the Company entered into an agreement for the sale and recorded a \$1.0 million impairment charge based on the valuation of the assets as implied by the agreed-upon sales price. This impairment was recorded on the Company's Consolidated Statements of Operations on the line item Goodwill impairment charge. The transaction closed on May 9, 2016 resulting in proceeds, net of selling costs, of a preliminary closing price of \$110.1 million, pending working capital adjustments. DCB was reported within the Company's Specialty Foods segment. DCB provided approximately \$260 million of net sales in fiscal 2015. Net earnings and earnings per share were not material to the consolidated Company.

Amounts classified as assets and liabilities held for sale on October 25, 2015 were presented on the Company's Consolidated Statement of Financial Position within their respective accounts, and include the following:

## Assets held for sale (in thousands)

Current assets	\$	26,057
Goodwill		51,811
Intangibles		5,389
Property, plant and equipment		31,678
Total assets held for sale	\$	114,935

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Liabilities held for sale (in thousands)	
Total current liabilities held for sale	\$ 3,191

Table of Contents**NOTE F PENSION AND OTHER POST-RETIREMENT BENEFITS**

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

<u>(in thousands)</u>	<b>Pension Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>July 24, 2016</b>	<b>July 26, 2015</b>
Service cost	\$ 6,645	\$ 7,198	\$ 20,005	\$ 21,596
Interest cost	13,674	13,131	41,030	39,392
Expected return on plan assets	(21,716)	(22,198)	(65,071)	(66,594)
Amortization of prior service cost	(1,037)	(1,220)	(3,169)	(3,659)
Recognized actuarial loss	4,787	4,625	13,958	13,851
Curtailement gain	(4,438)	-	(4,438)	-
Net periodic cost	\$ (2,085)	\$ 1,536	\$ 2,315	\$ 4,586

  

<u>(in thousands)</u>	<b>Post-retirement Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>July 24, 2016</b>	<b>July 26, 2015</b>
Service cost	\$ 317	\$ 442	\$ 950	\$ 1,327
Interest cost	3,236	3,337	9,708	10,009
Amortization of prior service cost	(1,050)	(335)	(3,151)	(1,003)
Recognized actuarial loss (gain)	392	-	1,176	(1)
Net periodic cost	\$ 2,895	\$ 3,444	\$ 8,683	\$ 10,332

During the third quarter of fiscal 2016, the Company made discretionary contributions of \$25.7 million to fund its pension plans, compared to discretionary contributions of \$22.7 million during the third quarter of fiscal 2015. The curtailment gain recognized in the third quarter of fiscal 2016 is due to plan amendments related to the sale of DCB.

**NOTE G 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 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 exposure beyond the next two upcoming fiscal years. As of July 24, 2016, and October 25, 2015, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

	<b>Commodity</b>	<b>July 24, 2016</b>	<b>Volume</b>	<b>October 25, 2015</b>
Corn		23.2 million bushels		20.1 million bushels

As of July 24, 2016, the Company has included in AOCL, hedging gains of \$5.9 million (before tax) relating to these positions, compared to gains of \$1.0 million (before tax) as of October 25, 2015. The Company expects to recognize the majority of these gains over the next 12 months.

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**Fair Value Hedges:** The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of July 24, 2016, and October 25, 2015, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

Commodity	Volume	
	July 24, 2016	October 25, 2015
Corn	5.9 million bushels	5.3 million bushels
Lean hogs	0.3 million cwt	0.4 million cwt

**Other Derivatives:** The Company holds certain futures and options contract positions as part of a merchandising program and to manage the Company's exposure to fluctuations in commodity markets. The Company has not applied hedge accounting to these positions.

As of July 24, 2016, and October 25, 2015, the Company had the following outstanding futures related to these programs:

Commodity	Volume	
	July 24, 2016	October 25, 2015
Corn	4.8 million bushels	2.6 million bushels
Soybean meal	15,200 tons	11,500 tons

**Fair Values:** The fair values of the Company's derivative instruments (in thousands) as of July 24, 2016, and October 25, 2015, were as follows:

	Location on Consolidated Statements of Financial Position	Fair Value (1)	
		July 24, 2016	October 25, 2015
<b>Asset Derivatives:</b>			
<b>Derivatives Designated as Hedges:</b>			
Commodity contracts	Other current assets	\$ (2,495)	\$ 305

**Derivatives Not Designated as Hedges:**

Commodity contracts	Other current assets	(93)	248
<b>Total Asset Derivatives</b>		\$ (2,588)	\$ 553

(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 L 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 third quarter ended July 24, 2016, and July 26, 2015, were as follows:

	Gain/(Loss)		Location on Consolidated Statements of Operations	Gain/(Loss)		Gain/(Loss)	
	Recognized in AOCL			Reclassified from AOCL into Earnings		Recognized in Earnings (Ineffective)	
	(Effective Portion) (1)			(Effective Portion) (1)		Portion) (2) (4)	
	Three Months Ended July 24, 2016	July 26, 2015		Three Months Ended July 24, 2016	July 26, 2015	Three Months Ended July 24, 2016	July 26, 2015
<b>Cash Flow Hedges:</b>							
Commodity contracts	\$ 7,702	\$ 8,184	Cost of products sold	\$ (346)	\$ (3,330)	\$ (14,277)	\$ (6,127)

	Location on Consolidated Statements of Operations	Gain/(Loss)		Gain/(Loss)	
		Recognized in Earnings (Effective Portion) (3)		Recognized in Earnings (Ineffective)	
		Three Months Ended		Three Months Ended	
		July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015
<b>Fair Value Hedges:</b>					
Commodity contracts	Cost of products sold	\$ (1)	\$ (1,727)	\$ 4,658	\$ 2,221

	Location on Consolidated Statements of Operations	Gain/(Loss)	
		Recognized in Earnings	
		Three Months Ended	
		July 24, 2016	July 26, 2015
<b>Derivatives Not Designated as Hedges:</b>			
Commodity contracts	Cost of products sold	\$ (244)	\$ 310

**Derivative Gains and Losses:** Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the nine months ended July 24, 2016, and July 26, 2015, were as follows:

Location on	Gain/(Loss)
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	Gain/(Loss)		Consolidated Statements  of Operations	Gain/(Loss)		Recognized in Earnings (Ineffective Portion) (2) (4)	
	Recognized in AOCL  (Effective Portion) (1)			Reclassified from  AOCL into Earnings  (Effective Portion) (1)			
	Nine Months Ended July 24, 2016	July 26, 2015		Nine Months Ended July 24, 2016	July 26, 2015	Nine Months Ended July 24, 2016	July 26, 2015
<b>Cash Flow Hedges:</b>							
Commodity contracts	\$ 3,234	\$ 6,814	Cost of products sold	\$ (1,690)	\$ (10,414)	\$ (14,255)	\$ (6,127)

	Gain/(Loss)		Location on  Consolidated Statements  of Operations	Gain/(Loss)		Recognized in Earnings (Ineffective Portion) (2) (5)	
	Recognized in Earnings (Effective Portion) (3)			Recognized  in Earnings  Nine Months Ended			
	Nine Months Ended July 24, 2016	July 26, 2015		Nine Months Ended July 24, 2016	July 26, 2015	Nine Months Ended July 24, 2016	July 26, 2015
<b>Fair Value Hedges:</b>							
Commodity contracts			Cost of products sold	\$ 1,905	\$ (5,664)	\$ 4,419	\$ 2,314

	Gain/(Loss)		Location on  Consolidated Statements  of Operations	Gain/(Loss)	
	Recognized  in Earnings  Nine Months Ended			Recognized  in Earnings  Nine Months Ended	
	July 24, 2016	July 26, 2015		July 24, 2016	July 26, 2015
<b>Derivatives Not Designated as Hedges:</b>					
Commodity contracts			Cost of products sold	\$ (674)	\$ 175



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(1) Amounts represent gains or losses in AOCL before tax. See Note I Accumulated Other Comprehensive Loss or the Consolidated

Statements of Comprehensive Income for the after-tax impact of these gains or losses on net earnings.

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

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

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

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

**NOTE H**

**INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES**

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

Investments in and receivables from affiliates consists of the following:

(in thousands)	Segment	% Owned	July 24,		October 25,	
			2016		2015	
MegaMex Foods, LLC	Grocery Products	50%	\$	194,340	\$	200,110
Foreign Joint Ventures	International & Other	Various (26-40%)		62,721		58,888
Total			\$	257,061	\$	258,998

Equity in earnings of affiliates consists of the following:

(in thousands)	Segment	Three Months Ended		Nine Months Ended	
		July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015

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MegaMex Foods, LLC	Grocery Products	\$	5,039	\$	4,928	\$	20,812	\$	20,142
Foreign Joint Ventures	International & Other		1,342		1,468		6,637		(4,212)
Total		\$	6,381	\$	6,396	\$	27,449	\$	15,930

Dividends received from affiliates for the three and nine months ended July 24, 2016, were \$10.0 million and \$24.5 million, respectively, compared to \$27.3 million and \$37.3 million dividends received for the three and nine months ended July 26, 2015. Equity in earnings in the first nine months of fiscal 2015 included nonrecurring charges related to the exit from international joint venture businesses.

The Company recognized a basis difference of \$21.3 million associated with the formation of MegaMex Foods, LLC, of which \$15.5 million is remaining as of July 24, 2016. This difference is being amortized through equity in earnings of affiliates.

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

Components of accumulated other comprehensive loss are as follows:

<u>(in thousands)</u>	<b>Foreign Currency Translation</b>	<b>Pension &amp; Other Benefits</b>	<b>Deferred Gain (Loss) - Hedging</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at April 24, 2016	\$ (621)	\$ (223,726)	\$ (1,319)	\$ (225,666)
Unrecognized gains (losses):				
Gross	(2,877)	-	7,702	4,825
Tax effect	-	-	(2,901)	(2,901)
Reclassification into net earnings:				
Gross	-	(1,346) <sup>(1)</sup>	346 <sup>(2)</sup>	(1,000)
Tax effect	-	511	(130)	381
Net of tax amount	(2,877)	(835)	5,017	1,305
Balance at July 24, 2016	\$ (3,498)	\$ (224,561)	\$ 3,698	\$ (224,361)

<u>(in thousands)</u>	<b>Foreign Currency Translation</b>	<b>Pension &amp; Other Benefits</b>	<b>Deferred Gain (Loss) - Hedging</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at October 25, 2015	\$ 969	\$ (227,266)	\$ 629	\$ (225,668)
Unrecognized gains (losses):				
Gross	(4,467)	(16)	3,234	(1,249)
Tax effect	-	5	(1,219)	(1,214)
Reclassification into net earnings:				
Gross	-	4,376 <sup>(1)</sup>	1,690 <sup>(2)</sup>	6,066
Tax effect	-	(1,660)	(636)	(2,296)
Net of tax amount	(4,467)	2,705	3,069	1,307
Balance at July 24, 2016	\$ (3,498)	\$ (224,561)	\$ 3,698	\$ (224,361)

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

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

**NOTE J****INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at July 24, 2016, recorded in other long-term liabilities was \$28.3 million, of which \$18.4 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 \$0.1 million expense and \$0.3 million benefit included in the third quarter and first nine months, respectively, of fiscal 2016. The amount of accrued interest and penalties at July 24, 2016, associated with

unrecognized tax benefits was \$3.0 million.

The Company is regularly audited by federal and state taxing authorities. The United States Internal Revenue Service (I.R.S.) concluded their examination of fiscal years 2013 and 2014 in the third quarter of fiscal 2016. The Company has elected to participate in the Compliance Assurance Process (CAP) for fiscal years 2015 and 2016. 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 may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time.

The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2010. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

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

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

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 24, 2016, and changes during the nine months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 25, 2015	34,397	\$ 13.83		
Granted	2,128	38.31		
Exercised	3,655	9.56		
Forfeited	24	22.88		
Outstanding at July 24, 2016	32,846	\$ 15.89	4.9 years	\$ 692,459
Exercisable at July 24, 2016	25,959	\$ 12.77	4.1 years	\$ 625,760

The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the third quarter and first nine months of fiscal years 2016 and 2015, are as follows:

	Three Months Ended		Nine Months Ended	
	July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015
Weighted-average grant date fair value	\$ 7.46	\$ 5.06	\$ 7.82	\$ 4.92
Intrinsic value of exercised options	\$ 7,895	\$ 10,223	\$ 111,111	\$ 42,824

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

	Three Months Ended		Nine Months Ended	
	July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015

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Risk-free interest rate	1.9%	1.9%	2.1%	2.1%
Dividend yield	1.5%	1.8%	1.5%	1.9%
Stock price volatility	19.0%	19.0%	19.0%	19.0%
Expected option life	8 years	8 years	8 years	8 years

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

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The Company's nonvested shares granted on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted between September 27, 2010, and July 27, 2014, vest after one year. Nonvested shares granted on or after July 28, 2014, vest on the earlier of the day before the Company's next annual meeting date or one year. A reconciliation of the nonvested shares (in thousands) as of July 24, 2016, and changes during the nine months then ended, is as follows:

	<b>Shares</b>		<b>Weighted- Average Grant- Date Fair Value</b>
Nonvested at October 25, 2015	74	\$	25.87
Granted	47		41.01
Vested	74		25.87
Nonvested at July 24, 2016	47	\$	41.01

The weighted-average grant date fair value of nonvested shares granted, the total fair value (in thousands) of nonvested shares granted, and the fair value (in thousands) of shares that have vested during the first nine months of fiscal years 2016 and 2015, are as follows:

	<b>Nine Months Ended</b>			
	<b>July 24, 2016</b>		<b>July 26, 2015</b>	
Weighted-average grant date fair value	\$	41.01	\$	25.87
Fair value of nonvested shares granted	\$	1,920	\$	1,920
Fair value of shares vested	\$	1,920	\$	2,347

Stock-based compensation expense, along with the related income tax benefit, for the third quarter and first nine months of fiscal years 2016 and 2015 is presented in the table below.

	<b>Three Months Ended</b>				<b>Nine Months Ended</b>			
	<b>July 24, 2016</b>		<b>July 26, 2015</b>		<b>July 24, 2016</b>		<b>July 26, 2015</b>	
<u>(in thousands)</u>								
Stock-based compensation expense recognized	\$	1,913	\$	1,711	\$	16,091	\$	14,260
Income tax benefit recognized		(726)		(649)		(6,105)		(5,414)
After-tax stock-based compensation expense	\$	1,187	\$	1,062	\$	9,986	\$	8,846

At July 24, 2016, there was \$11.6 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.7 years. During the third quarter and nine months ended July 24, 2016, cash received from stock option exercises was \$0.8 million and \$9.2 million, respectively, compared to \$1.8 million and \$7.8 million for the third quarter and nine months ended July 26, 2015. The total tax benefit to be realized for tax deductions from these option exercises for the third quarter and nine months ended July 24, 2016, was \$3.0 million and \$42.2 million, respectively, compared to \$3.9 million and \$16.3 million in the comparable periods of fiscal 2015.

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 L**

**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 July 24, 2016, and October 25, 2015, and their level within the fair value hierarchy, are presented in the tables below.

	Fair Value Measurements at July 24, 2016			
	Fair Value at July 24, 2016	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>				
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 379,597	\$ 379,597	\$ -	\$ -
Other trading securities (2)	122,082	40,214	81,868	-
Commodity derivatives (3)	5,230	5,230	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 506,909</b>	<b>\$ 425,041</b>	<b>\$ 81,868</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 57,051	\$ 26,567	\$ 30,484	\$ -
<b>Total Liabilities at Fair Value</b>	<b>\$ 57,051</b>	<b>\$ 26,567</b>	<b>\$ 30,484</b>	<b>\$ -</b>

	Fair Value Measurements at October 25, 2015			
	Fair Value at October 25, 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>				
<b>Assets at Fair Value:</b>				
Cash and cash equivalents (1)	\$ 347,239	\$ 347,239	\$ -	\$ -
Other trading securities (2)	119,668	39,329	80,339	-
Commodity derivatives (3)	6,485	6,485	-	-
<b>Total Assets at Fair Value</b>	<b>\$ 473,392</b>	<b>\$ 393,053</b>	<b>\$ 80,339</b>	<b>\$ -</b>
<b>Liabilities at Fair Value:</b>				
Deferred compensation (2)	\$ 57,869	\$ 25,272	\$ 32,597	\$ -

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<b>Total Liabilities at Fair Value</b>	\$	57,869	\$	25,272	\$	32,597	\$	-
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The following methods and assumptions were used to estimate the fair value of the financial assets and liabilities above:

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

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

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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 to minimize the price risk assumed when forward priced contracts are offered to the Company's commodity suppliers. The Company's futures contracts for corn are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore, these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of July 24, 2016, the Company has recognized the right to reclaim net cash collateral of \$7.8 million from various counterparties (including \$3.8 million of cash and \$4.0 million of realized gains on closed positions). As of October 25, 2015, the Company had recognized the right to reclaim net cash collateral of \$2.3 million from various counterparties (including \$13.7 million of cash less \$11.4 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 \$280.7 million as of July 24, 2016, and \$268.4 million as of October 25, 2015.

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 second quarter of fiscal year 2016, a \$1.0 million goodwill impairment charge was recorded for the portion of DCB assets held for sale which was based on the valuation of these assets as implied by the agreed-upon sales price. See additional discussion regarding the Company's assets held for sale in Note E. During the nine months ended July 24, 2016, and July 26, 2015, there were no other remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

**NOTE M**

**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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
<u>(in thousands)</u>	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>July 24, 2016</b>	<b>July 26, 2015</b>

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Basic weighted-average shares outstanding	529,660	528,516	529,473	527,975
Dilutive potential common shares	12,503	12,688	13,417	12,763
Diluted weighted-average shares outstanding	542,163	541,204	542,890	540,738

For the third quarter and nine months ended July 24, 2016, 1.8 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 twenty-four thousand and 1.2 million for the third quarter and nine months ended July 26, 2015.

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**NOTE N**

**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 consists primarily of the processing, marketing, and sale of branded and unbranded pork and beef products for retail, foodservice, and fresh product customers. This segment includes the results of Applegate and Affiliated Foods.

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 consists of the packaging and sale of private label shelf-stable and nutritional products to industrial, retail, and foodservice customers. This segment included the portion of DCB classified as held for sale at the end of fiscal 2015 through the date of sale on May 9, 2016. See additional discussion regarding the Company's assets held for sale in Note E.

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

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

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



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	Three Months Ended		Nine Months Ended	
	July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015
<u>(in thousands)</u>				
<b>Sales to Unaffiliated Customers</b>				
Grocery Products	\$ 399,342	\$ 388,094	\$ 1,193,032	\$ 1,195,110
Refrigerated Foods	1,155,297	1,056,125	3,409,897	3,222,851
Jennie-O Turkey Store	403,953	336,533	1,199,559	1,215,464
Specialty Foods	212,197	282,774	722,460	833,472
International & Other	131,587	125,061	370,335	396,108
Total	\$ 2,302,376	\$ 2,188,587	\$ 6,895,283	\$ 6,863,005
<b>Intersegment Sales</b>				
Grocery Products	\$ -	\$ -	\$ -	\$ -
Refrigerated Foods	1,648	2,440	7,635	10,183
Jennie-O Turkey Store	27,921	27,241	88,604	99,023
Specialty Foods	8	18	17	64
International & Other	-	-	-	-
Total	\$ 29,577	\$ 29,699	\$ 96,256	\$ 109,270
Intersegment elimination	(29,577)	(29,699)	(96,256)	(109,270)
Total	\$ -	\$ -	\$ -	\$ -
<b>Net Sales</b>				
Grocery Products	\$ 399,342	\$ 388,094	\$ 1,193,032	\$ 1,195,110
Refrigerated Foods	1,156,945	1,058,565	3,417,532	3,233,034
Jennie-O Turkey Store	431,874	363,774	1,288,163	1,314,487
Specialty Foods	212,205	282,792	722,477	833,536
International & Other	131,587	125,061	370,335	396,108
Intersegment elimination	(29,577)	(29,699)	(96,256)	(109,270)
Total	\$ 2,302,376	\$ 2,188,587	\$ 6,895,283	\$ 6,863,005
<b>Segment Operating Profit</b>				
Grocery Products	\$ 53,344	\$ 53,108	\$ 185,727	\$ 149,810
Refrigerated Foods	120,702	97,692	417,612	313,681
Jennie-O Turkey Store	56,147	35,374	237,128	202,990
Specialty Foods	27,089	31,190	90,735	70,910
International & Other	20,308	19,251	58,839	55,018
Total segment operating profit	\$ 277,590	\$ 236,615	\$ 990,041	\$ 792,409
Net interest and investment expense				
(income)	673	2,941	5,663	6,836
General corporate expense	2,922	5,473	32,111	18,550
Noncontrolling interest	122	18	215	964
Earnings before income taxes	\$ 274,117	\$ 228,219	\$ 952,482	\$ 767,987

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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 25, 2015.

**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 N in the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

The Company reported net earnings per diluted share of \$0.36 for the third quarter of fiscal 2016, compared to \$0.27 per diluted share in the third quarter of fiscal 2015. Significant factors impacting the quarter were:

- The Company delivered record results, with three of the Company's five segments delivering volume, sales, and earnings growth.
- The Refrigerated Foods segment delivered robust segment profit gains driven by the inclusion of the Applegate business, favorable market conditions, and growth in value-added products.
- Jennie-O Turkey Store (JOTS) returned to growth following the recovery from the Highly Pathogenic Avian Influenza (HPAI) outbreak in fiscal 2015.
- International & Other segment profit rose on improved export results of fresh pork, *SKIPPY* peanut butter, and the *SPAM* family of products.
- Grocery Products segment profit was flat due to an increase in advertising and transaction costs related to the Justin's, LLC (Justin's) acquisition.
- Specialty Foods segment profit decreased primarily due to the divestiture of the Diamond Crystal Brands (DCB) business.



## Consolidated Results

## Net earnings and diluted earnings per share

(in millions, except per share amounts)	Three Months			Nine Months		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015(2)	% Change
Net earnings	\$ 195.7	146.9	33.2	\$ 646.1	498.9	29.5
Diluted earnings per share	0.36	0.27	33.3	1.19	0.92	29.3
Adjusted(1) net earnings				646.1	514.5	25.6
Adjusted(1) diluted earnings per share				1.19	0.95	25.3

(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 following table shows the calculations to reconcile from the non-GAAP adjusted measures to the GAAP measures.

(2) The first nine months of fiscal 2015 contained non-GAAP adjusted financial measurements and 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 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.

Table of Contents**Nine Months Ended July 24, 2016**

(in thousands, except per share amounts)

	<b>2016</b>	<b>2015 Non-GAAP</b>	<b>Stockton</b>	<b>International</b>	<b>2015 GAAP</b>
	<b>Earnings</b>	<b>Adjusted Earnings</b>	<b>Plant Closure</b>	<b>Business Exit</b>	<b>Earnings</b>
Grocery Products	\$ 185,727	\$ 160,336	\$ (10,526)	\$ -	\$ 149,810
Refrigerated Foods	417,612	313,681	-	-	313,681
Jennie-O Turkey Store	237,128	202,990	-	-	202,990
Specialty Foods	90,735	70,910	-	-	70,910
International & Other	58,839	64,564	-	(9,546)	55,018
<b>Total segment operating profit</b>	<b>990,041</b>	<b>812,481</b>	<b>(10,526)</b>	<b>(9,546)</b>	<b>792,409</b>
Net interest & investment expense	(5,663)	(6,836)	-	-	(6,836)
General corporate expense	(32,111)	(18,550)	-	-	(18,550)
<b>Earnings before income taxes</b>	<b>952,267</b>	<b>787,095</b>	<b>(10,526)</b>	<b>(9,546)</b>	<b>767,023</b>
Income taxes	(306,155)	(272,621)	3,685	770	(268,166)
<b>Net earnings attributable to Hormel Foods Corporation</b>	<b>\$ 646,112</b>	<b>\$ 514,474</b>	<b>\$ (6,841)</b>	<b>\$ (8,776)</b>	<b>\$ 498,857</b>
<b>Diluted net earnings per share*</b>	<b>\$ 1.19</b>	<b>\$ 0.95</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ 0.92</b>

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

**Net sales**

<u>(in millions)</u>	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>% Change</b>	<b>July 24, 2016</b>	<b>July 26, 2015</b>	<b>% Change</b>
Net sales	\$ 2,302	\$ 2,189	5.2	\$ 6,895	\$ 6,863	0.5
Tonnage (lbs.)	1,220	1,206	1.2	3,771	3,801	(0.8)

Net sales were enhanced by the addition of Applegate in the Refrigerated Foods segment and Justin's in the Grocery Products segment.

JOTS posted strong net sales performance as production volumes returned to normalized levels during the third quarter of fiscal 2016. Refrigerated Foods and Grocery Products experienced strong value-added product sales. Specialty Foods sales were negatively impacted by the divestiture of DCB. Pork export sales improved in the International & Other segment and contributed to the sales gains in the third quarter. For the first nine months of fiscal 2016, net sales were impacted by lower turkey volumes at JOTS due to the lingering effects of HPAI in the first half of the year along with softer export demand in the International & Other segment.

**Cost of products sold**

<u>(in millions)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Cost of products sold	\$ 1,827	\$ 1,779	2.7	\$ 5,336	\$ 5,549	(3.8)

The increase in cost of products sold for the third quarter of fiscal 2016 is primarily a result of higher sales volumes of JOTS products. JOTS sales volumes declined in fiscal 2015 as HPAI significantly impacted the availability of raw materials. In addition, JOTS incurred a \$9.6 million mark-to-market loss on hedging in the third quarter of fiscal 2016. Higher pork costs in China resulted in higher cost of products sold in the third quarter. For the first nine months of fiscal 2016, cost of products sold decreased due to lower pork input costs for the Refrigerated Foods and Grocery Products segments along with lower grain costs for JOTS and favorable input costs for Specialty Foods. In the first quarter of fiscal 2015 charges totaling \$10.5 million were recognized for the closure of the Stockton, California manufacturing facility.

Table of Contents**Gross profit**

<u>(in millions)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Gross profit	\$ 475.3	\$ 409.4	16.1	\$ 1,559.7	\$ 1,313.6	18.7
Percentage of net sales	20.6%	18.7%		22.6%	19.1%	

Higher margins from JOTS, Refrigerated Foods, Grocery Products, and the International & Other segments in the third quarter of fiscal 2016 offset lower results in the Specialty Foods segment. The improved gross profit for JOTS is the result of strong net sales results following the recovery of HPAI. Margins in the Refrigerated Foods segment were driven by favorable market conditions and value-added sales growth. These gains offset overall lower sales in Specialty Foods due to the disposition of DCB. For the first nine months of fiscal 2016, strong value-added sales results across the Company's segments boosted margins.

The Company expects continued favorable market conditions and growth in value-added products for Refrigerated Foods, JOTS, and Grocery Products moving into the fourth quarter. After returning to more normalized production levels, JOTS remains focused on gaining back distribution lost during the HPAI outbreak and is positioned to deliver profit growth in the fourth quarter of fiscal 2016. The International & Other segment expects positive momentum to continue in key export categories, including *SPAM*, *SKIPPY*, and pork. The Specialty Foods segment is not expected to show year-over-year increases in sales and profits as a result of the divestiture of DCB.

**Selling, general and administrative (SG&A)**

<u>(in millions)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
SG&A	\$ 206.9	\$ 184.6	12.1	\$ 628.0	\$ 554.7	13.2
Percentage of net sales	9.0%	8.4%		9.1%	8.1%	

For the third quarter of fiscal 2016, SG&A expenses increased primarily on higher advertising expense to support and strengthen the Company's brands and the inclusion of Applegate and Justin's expenses.

**Equity in earnings of affiliates**

<u>(in millions)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Equity in earnings of affiliates	\$ 6.4	\$ 6.4	(0.0)	\$ 27.4	\$ 15.9	72.3

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The improved results for the first nine months of fiscal 2016 reflect the comparison to the prior year as pre-tax charges associated with the exit from international joint venture businesses totaling \$9.5 million impacted the first quarter of fiscal 2015.

### Effective tax rate

	Three Months Ended		Nine Months Ended	
	July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015
Effective tax rate	28.6%	35.6%	32.1%	34.9%

The effective tax rate for the third quarter of fiscal 2016 benefitted from favorable discrete tax events primarily related to international entity restructuring. The Company expects a full-year effective tax rate between 32.0 and 32.5 percent for fiscal 2016.

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 N of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
<b>Net Sales</b>						
Grocery Products	\$ 399,342	\$ 388,094	2.9	\$ 1,193,032	\$ 1,195,110	(0.2)
Refrigerated Foods	1,155,297	1,056,125	9.4	3,409,897	3,222,851	5.8
Jennie-O Turkey Store	403,953	336,533	20.0	1,199,559	1,215,464	(1.3)
Specialty Foods	212,197	282,774	(25.0)	722,460	833,472	(13.3)
International & Other	131,587	125,061	5.2	370,335	396,108	(6.5)
Total	\$ 2,302,376	\$ 2,188,587	5.2	\$ 6,895,283	\$ 6,863,005	0.5
<b>Segment Operating Profit</b>						
Grocery Products	\$ 53,344	\$ 53,108	0.4	\$ 185,727	\$ 149,810	24.0
Refrigerated Foods	120,702	97,692	23.6	417,612	313,681	33.1
Jennie-O Turkey Store	56,147	35,374	58.7	237,128	202,990	16.8
Specialty Foods	27,089	31,190	(13.1)	90,735	70,910	28.0
International & Other	20,308	19,251	5.5	58,839	55,018	6.9
Total segment operating profit	\$ 277,590	\$ 236,615	17.3	\$ 990,041	\$ 792,409	24.9
Net interest and investment expense (income)	673	2,941	(77.1)	5,663	6,836	(17.2)
General corporate expense	2,922	5,473	(46.6)	32,111	18,550	73.1
Noncontrolling interest	122	18	577.8	215	964	(77.7)
Earnings before income taxes	\$ 274,117	\$ 228,219	20.1	\$ 952,482	\$ 767,987	24.0

**Grocery Products**

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

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Net sales	\$ 399,342	\$ 388,094	2.9	\$ 1,193,032	\$ 1,195,110	(0.2)
Tonnage (lbs.)	210,877	209,770	0.5	647,816	660,565	(1.9)
Segment profit	\$ 53,344	\$ 53,108	0.4	\$ 185,727	\$ 149,810	24.0

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Sales increased for the third quarter of fiscal 2016 aided by the inclusion of Justin's products in addition to increases in the *SPAM* family of products, *SKIPPY* peanut butter, and *Wholly Guacamole* dips. For the first nine months, lower sales of *Hormel Compleats* microwave meals contributed to the net sales decline.

Segment profit results for the third quarter benefitted from the net sales growth noted above, but were offset by increased advertising expenses and transaction costs related to the Justin's acquisition. Charges totaling \$10.5 million related to the closure of the Stockton, California manufacturing facility impacted the first quarter of fiscal 2015 aiding the year-over-year comparison.

The Company anticipates strong sales growth in the fourth quarter driven by the inclusion of Justin's and positive momentum in *SKIPPY* peanut butter products and *Wholly Guacamole* dips.

Table of Contents**Refrigerated Foods**

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

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Net sales	\$ 1,155,297	\$ 1,056,125	9.4	\$ 3,409,897	\$ 3,222,851	5.8
Tonnage (lbs.)	596,389	579,925	2.8	1,834,852	1,766,947	3.8
Segment profit	\$ 120,702	\$ 97,692	23.6	\$ 417,612	\$ 313,681	33.1

Sales increased on continued success in many of the Company's value-added products for both the third quarter and first nine months of fiscal 2016. Foodservice sales of *Hormel Bacon 1* fully cooked bacon, *Old Smokehouse* bacon, and *Hormel Fire Braised* meats showed continued robust growth in fiscal 2016. Retail sales of *Hormel Natural Choice* lunchmeat experienced growth in both the third quarter and first nine months of fiscal 2016.

Segment profit results in both the third quarter and first nine months of fiscal 2016 benefitted from the addition of the Applegate business, favorable market conditions, and strong results from the Company's foodservice business. In addition, prior year results included \$8.6 million of transaction costs related to the Applegate acquisition in the third quarter of fiscal 2015.

Looking ahead into the fourth quarter, the Company expects Refrigerated Foods to continue growing sales and earnings through increases in value-added products.

**Jennie-O Turkey Store**

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

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Net sales	\$ 403,953	\$ 336,533	20.0	\$ 1,199,559	\$ 1,215,464	(1.3)
Tonnage (lbs.)	215,447	167,533	28.6	610,486	627,890	(2.8)
Segment profit	\$ 56,147	\$ 35,374	58.7	\$ 237,128	\$ 202,990	16.8

Net sales in the third quarter of fiscal 2016 were strong as production volumes returned to normalized levels following the recovery from HPAI. *Jennie-O* value-added foodservice and deli products contributed to sales growth during the third quarter of fiscal 2016. Retail sales of *Jennie-O*



turkey bacon also experienced growth in the third quarter. The reduction in net sales for the first nine months of fiscal 2016 reflects the lingering effects of the HPAI outbreak, as flocks lost in fiscal 2015 created shortfalls in operations and sales in the first half of fiscal 2016.

The substantial increase in segment profit results for the third quarter is largely attributed to the comparison to last year's results impacted by HPAI. Additionally, favorable input costs in fiscal 2016 have provided benefits for both the third quarter and first nine months of fiscal year 2016. Third quarter results also reflect a \$9.6 million mark-to-market loss on hedges.

JOTS is positioned to show strong sales and earnings growth in the fourth quarter and is focused on regaining distribution lost during the HPAI outbreak last year. Lower grain input costs should be a benefit in the fourth quarter. In addition, the "Make the Switch" advertising campaign will continue through October and is expected to drive growth in the business.

Table of Contents**Specialty Foods**

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

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Net sales	\$ 212,197	\$ 282,774	(25.0)	\$ 722,460	\$ 833,472	(13.3)
Tonnage (lbs.)	120,487	178,416	(32.5)	456,214	524,326	(13.0)
Segment profit	\$ 27,089	\$ 31,190	(13.1)	\$ 90,735	\$ 70,910	28.0

The divestiture of DCB during the third quarter of fiscal 2016 was the primary contributor to lower sales. Increased sales of *Muscle Milk* protein products were not able to offset reduced contract packaging sales resulting in sales declines in both the third quarter and first nine months of fiscal 2016.

Segment profit for the third quarter of fiscal 2016 declined primarily due to the divestiture of DCB and reductions in contract manufacturing sales. For the first nine months of fiscal 2016, operational synergies within the CytoSport and Century Foods supply chain drove segment profit growth.

The Company expects Specialty Foods to continue to deliver increased sales of *Muscle Milk* protein products with the recent addition of many new innovative products, but is not expected to achieve year-over-year increases in segment sales and earnings in the fourth quarter as a result of the divestiture of DCB.

**International & Other**

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

<u>(in thousands)</u>	Three Months Ended			Nine Months Ended		
	July 24, 2016	July 26, 2015	% Change	July 24, 2016	July 26, 2015	% Change
Net sales	\$ 131,587	\$ 125,061	5.2	\$ 370,335	\$ 396,108	(6.5)
Tonnage (lbs.)	77,235	70,209	10.0	221,673	221,468	0.1
Segment profit	\$ 20,308	\$ 19,251	5.5	\$ 58,839	\$ 55,018	6.9

Strong exports of fresh pork, *SKIPPY* peanut butter, and *SPAM* luncheon meats all contributed to increased sales in the third quarter of fiscal 2016. Sales growth of *SKIPPY* peanut butter for the Company's China operations offset declines in processed meats. Results for the first nine

months of fiscal 2016 were impacted by overall challenging market conditions experienced in the first half of the year.

Segment profit results for the third quarter of fiscal 2016 reflect the stronger export sales noted above compared to the prior year. Stronger equity in earnings results also provided a benefit to the first nine months compared to fiscal 2015. Royalties declined for both the third quarter and first nine months of fiscal 2016. Fiscal 2015 included charges of \$9.5 million related to the exit from international joint venture businesses, which led to the improved profit comparison for the first nine months.

Entering the fourth quarter, the Company expects positive momentum to continue in key export categories, including *SPAM* luncheon meat and *SKIPPY* peanut butter products. The Company's China operations will continue to be challenged with higher raw material costs and soft demand in the retail meat business through the remainder of fiscal 2016, but growth in *SKIPPY* peanut butter products should provide a benefit.

#### **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

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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.

(in millions)	Three Months Ended		Nine Months Ended	
	July 24, 2016	July 26, 2015	July 24, 2016	July 26, 2015
Net interest and investment expense (income)	\$ 0.7	\$ 2.9	\$ 5.7	\$ 6.8
Interest expense	3.1	3.1	9.6	9.3
General corporate expense	2.9	5.5	32.1	18.6
Noncontrolling interest earnings	0.1	0.0	0.2	1.0

Lower employee-related costs contributed to the decreased expense for the third quarter. For the first nine months of fiscal 2016, the increased expense was due to increased legal reserves and higher employee-related expenses in the first half of the year. The prior year results for the first nine months also included gains on the miscellaneous sale of assets and sales and use tax refunds.

**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 25, 2015.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$379.6 million at the end of the third quarter of fiscal year 2016 compared to \$349.2 million at the end of the comparable fiscal 2015 period.

Cash provided by operating activities was \$621.7 million in the first nine months of fiscal 2016 compared to \$690.2 million in the same period of fiscal 2015. Increased earnings in the first nine months of fiscal 2016 were offset by overall unfavorable changes in working capital.

Cash used in investing activities was \$327.9 million in the first nine months of fiscal 2016 compared to \$846.7 million in the comparable quarter of fiscal 2015. The first nine months of fiscal 2016 include \$281.7 million used to purchase Justin's, partially offset by \$110.1 million provided by the divestiture of DCB. The first nine months of 2015 include \$771.8 million used to purchase Applegate. Capital expenditures in the first nine months of fiscal 2016 have increased to \$165.8 million from \$96.8 million in the comparable nine months of fiscal 2015. The Company currently estimates its fiscal 2016 capital expenditures will be approximately \$250.0 million.

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Cash used in financing activities was \$256.3 million in the first nine months of fiscal 2016 compared to cash provided by financing activities of \$173.9 million in the same period of fiscal 2015. In the third quarter of fiscal 2016, in connection with the purchase of Justin's, the Company borrowed \$145.0 million under a revolving credit facility. In the third quarter of fiscal 2015, in connection with the purchase of Applegate, the Company borrowed \$300.0 million under a term loan facility and \$50.0 million under a revolving credit facility. The outstanding \$185.0 million was paid down in the first quarter of fiscal 2016. The Company repurchased \$45.0 million of its common stock in the first nine months of fiscal 2016 compared to none purchased in the first nine months of the prior year. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Cash dividends paid to the Company's shareholders continue to be an ongoing financing activity for the Company. Dividends paid in the first nine months of fiscal 2016 were \$219.7 million compared to \$184.8 million in the comparable period of fiscal 2015. For fiscal 2016, the annual dividend rate has been increased to \$0.58 per share, representing the 50th consecutive annual dividend increase. The Company has paid dividends for 352 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and financial position. At the end of the third quarter of fiscal 2016, the Company was in compliance with all of these debt covenants.

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

The Company takes pride in returning excess cash flow to shareholders through dividend payments. Growing the business through supporting innovation to drive organic growth along with evaluating opportunities for strategic acquisitions remains a focus for the Company. Capital spending to enhance and expand current operations will also be a significant cash outflow for fiscal 2016.

**Contractual Obligations and Commercial Commitments**

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at July 24, 2016, was \$28.3 million.

There have been no other material changes to the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2015.

**Off-Balance Sheet Arrangements**

As of July 24, 2016, and October 25, 2015, the Company had \$44.0 million and \$44.1 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 \$4.0 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.

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

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

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

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



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

**Hog Markets:** The Company's earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 10 years. Purchased hogs under contract accounted for 93 percent and 94 percent of the total hogs purchased by the Company during the first nine months of fiscal 2016 and 2015, respectively. The majority of these contracts use market-based formulas based on hog futures, hog primal values, or industry reported hog markets. Other contracts use a formula based on the cost of production, which can fluctuate independently from hog markets. Under normal, long-term market conditions, changes in the cash hog market are offset by proportional changes in primal values. Therefore, a hypothetical 10 percent change in the cash hog market would have had an immaterial effect on the Company's results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of July 24, 2016, was \$2.0 million compared to \$1.2 million as of October 25, 2015.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's July 24, 2016, open contracts by \$2.1 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 \$9.1 million, before tax, on the Consolidated Statements of Financial Position as of July 24, 2016, compared to an unrealized loss of \$2.9 million, before tax, as of October 25, 2015.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's July 24, 2016, open grain contracts by \$8.4 million, which in turn would lower the Company's future cost on purchased grain by a similar amount.

**Long-Term Debt:** A principal market risk affecting the Company is the exposure to changes in interest rates on the Company's fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately \$2.0 million. The fair value of the Company's long-term debt was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

**Investments:** The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. As of July 24, 2016, the balance of these securities totaled \$122.1 million. A majority of these securities represent fixed income funds. The Company is subject to market risk due to fluctuations in the value of the remaining investments, as unrealized gains and losses associated with these securities are included in the Company's net earnings on a mark-to-market basis. A 10 percent decline in

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the value of the investments not held in fixed income funds would have a direct negative impact to the Company's pretax earnings of approximately \$4.0 million, while a 10 percent increase in value would have a positive impact of the same amount.

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

**Item 4. Controls and Procedures**

(a) Disclosure Controls and Procedures.

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

(b) Internal Controls.

During the first nine months of fiscal year 2016, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

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**Item 1A. Risk Factors**

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

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

§ food spoilage;

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

§ food allergens;

§ nutritional and health-related concerns;

§ federal, state, and local food processing controls;

§ consumer product liability claims;

§ product tampering; and

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

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

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

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

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

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

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

The Company also utilizes hedging programs to manage its exposure to various commodity market risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in the Company's earnings each period. These instruments may also limit the Company's ability to benefit from market gains if commodity prices become more favorable than those that have been secured under the Company's hedging programs. Most recently, due to market volatility the Company temporarily suspended the use of the special hedge accounting exemption for its Jennie-O Turkey Store corn futures contracts in the third quarter of fiscal 2016. During the time of suspension, all gains or losses related to these contracts were recognized as ineffectiveness in earnings as incurred.

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 and availability of pork, poultry, beef, feed grains, avocados, peanuts, energy, and whey could harm the Company's earnings.*

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

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

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

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

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

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

The Company is subject to risks associated with the outbreak of disease in pork and beef livestock, and poultry flocks, including Bovine Spongiform Encephalopathy (BSE), pneumo-virus, Porcine Circovirus 2 (PCV2), Porcine Reproduction & Respiratory Syndrome (PRRS), Foot-and-Mouth Disease (FMD), Porcine Epidemic Diarrhea Virus (PEDv), and Highly Pathogenic Avian Influenza (HPAI). The outbreak of disease could adversely affect the Company's supply of raw materials, increase the cost of production, reduce utilization of the Company's harvest facilities, and reduce operating margins. Additionally, the outbreak of disease may hinder the Company's ability to market and sell products both domestically and internationally. Most recently, HPAI has impacted the Company's Jennie-O Turkey Store operations and several of the Company's independent turkey suppliers. The impact of HPAI in the industry reduced volume through the Company's turkey facilities through the first part of fiscal 2016. The Company has developed business continuity plans for various disease scenarios and will continue to update these plans as necessary. There can be no assurance given, however, that these plans will be effective in eliminating the negative effects of any

such diseases on the Company's operating results.



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

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

§ price;

§ product quality and attributes;

§ brand identification;

§ breadth of product line; and

§ customer service.

Demand for the Company's products is also affected by competitors' promotional spending and the effectiveness of the Company's advertising and marketing programs, and consumer perceptions. Failure to identify and react to changes in food trends such as sustainability of product sources and animal welfare could lead to, among other things, reduced demand for the Company's brands and products. The Company may be unable to compete successfully on any or all of these bases in the future.

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

The Company has made several acquisitions in recent years, most recently the acquisitions of Justin's and Applegate, 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.

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

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

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

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

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

As of July 24, 2016, the Company had approximately 20,800 employees worldwide, of which approximately 5,500 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.

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

**Issuer Purchases of Equity Securities in the Third Quarter of Fiscal 2016**

<b>Period</b>	<b>Total Number of Shares</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly</b>	<b>Maximum Number of Shares that May Yet Be Purchased</b>
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		<b>Purchased<sup>1</sup></b>			<b>Announced Plans or Programs<sup>1</sup></b>	<b>Under the Plans or Programs<sup>1</sup></b>
April 25, 2016	May 29, 2016	300,000	\$	37.59	300,000	15,115,200
May 30, 2016	June 26, 2016	380,000		34.59	380,000	14,735,200
June 27, 2016	July 24, 2016	393,666		36.06	393,666	14,341,534
Total		1,073,666	\$	35.97	1,073,666	

<sup>1</sup>On January 31, 2013, the Company announced that its Board of Directors had authorized the repurchase of 10,000,000 shares of its common stock with no expiration date. The repurchase program was authorized at a meeting of the Company's Board of Directors on January 29, 2013. On November 23, 2015, the Board of Directors authorized a two-for-one split of the Company's common stock. As part of the resolution to approve that stock split, the number of shares remaining to be repurchased was adjusted proportionately. The stock split was subsequently approved by shareholders at the Company's

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Annual Meeting on January 26, 2016, and effected January 27, 2016. All numbers in the table above reflect the impact of this stock split.

**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: September 2, 2016

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

Date: September 2, 2016

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