HORMEL FOODS CORP /DE/
Form 10-Q
June 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 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	41-0319970
(State or other jurisdiction of incorporation or	(I.R.S. Employer Identification No.)

organization)

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

55912-3680
(Zip Code)

(507) 437-5611

(Registrant s telephone number, including area code)

None

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

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

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

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

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

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

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

Class	**Outstanding at May 29, 2016**	
Common Stock	$.01465 par value	529,860,473
Common Stock Non-Voting	$.01 par value	-0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	April 24, 2016 (Unaudited)	October 25, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 379,881	$ 347,239
Accounts receivable	548,497	605,689
Inventories	1,027,440	993,265
Income taxes receivable	-	6,132
Deferred income taxes	-	86,902
Prepaid expenses	13,908	14,383
Other current assets	5,356	9,422
TOTAL CURRENT ASSETS	1,975,082	2,063,032
DEFERRED INCOME TAXES	23,164	-
GOODWILL	1,698,370	1,699,484
OTHER INTANGIBLES	823,130	827,219
PENSION ASSETS	140,990	132,861
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	254,949	258,998
OTHER ASSETS	145,730	146,498
PROPERTY, PLANT AND EQUIPMENT		
Land	70,846	71,192
Buildings	821,303	815,643
Equipment	1,706,597	1,679,100
Construction in progress	132,975	79,964
	2,731,721	2,645,899
Less allowance for depreciation	(1,682,791)	(1,634,160)
	1,048,930	1,011,739
TOTAL ASSETS	$ 6,110,345	$ 6,139,831

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	April 24, 2016 (Unaudited)	October 25, 2015
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 389,418	$ 495,317
Short-term debt	-	185,000
Accrued expenses	71,013	71,777
Accrued workers compensation	37,828	37,009
Accrued marketing expenses	156,574	119,153
Employee related expenses	195,151	232,309
Taxes payable	10,096	6,764
Interest and dividends payable	77,304	66,696
TOTAL CURRENT LIABILITIES	937,384	1,214,025
LONG-TERM DEBT less current maturities	250,000	250,000
PENSION AND POST-RETIREMENT BENEFITS	513,842	509,261
OTHER LONG-TERM LIABILITIES	99,480	101,056
DEFERRED INCOME TAXES	-	64,096
SHAREHOLDERS INVESTMENT *		
Preferred stock, par value $.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value $.01465 a share authorized 1,600,000,000 shares; issued 530,044,459 shares April 24, 2016 issued 528,411,628 shares October 25, 2015	7,765	7,741
Additional paid-in capital	11,287	-
Accumulated other comprehensive loss	(225,666)	(225,668)
Retained earnings	4,513,097	4,216,125
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	4,306,483	3,998,198
NONCONTROLLING INTEREST	3,156	3,195
TOTAL SHAREHOLDERS INVESTMENT	4,309,639	4,001,393
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 6,110,345	$ 6,139,831

* 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

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 24, 2016	April 26, 2015*	April 24, 2016	April 26, 2015*
Net sales	$ 2,300,235	$ 2,279,345	$ 4,592,907	$ 4,674,418
Cost of products sold	1,773,876	1,819,789	3,508,537	3,770,257
GROSS PROFIT	526,359	459,556	1,084,370	904,161
Selling, general and administrative	211,144	189,733	421,092	370,032
Goodwill impairment charge	991	-	991	-
Equity in earnings of affiliates	9,593	7,874	21,068	9,534
OPERATING INCOME	323,817	277,697	683,355	543,663
Other income and expense:				
Interest and investment income (loss)	3,409	1,117	1,446	2,266
Interest expense	(3,029)	(3,083)	(6,436)	(6,161)
EARNINGS BEFORE INCOME TAXES	324,197	275,731	678,365	539,768
Provision for income taxes	108,813	95,296	227,814	186,903
NET EARNINGS	215,384	180,435	450,551	352,865
Less: Net (loss) earnings attributable to noncontrolling interest	(13)	234	93	946
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 215,397	$ 180,201	$ 450,458	$ 351,919
NET EARNINGS PER SHARE:				
BASIC	$ 0.41	$ 0.34	$ 0.85	$ 0.67
DILUTED	$ 0.40	$ 0.33	$ 0.83	$ 0.65
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	529,898	528,056	529,380	527,704
DILUTED	543,769	540,888	543,253	540,505
DIVIDENDS DECLARED PER SHARE:	$ 0.145	$ 0.125	$ 0.290	$ 0.250

* 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

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 24, 2016	**April 26, 2015**	**April 24, 2016**	**April 26, 2015**
NET EARNINGS	$ 215,384	$ 180,435	$ 450,551	$ 352,865
Other comprehensive income (loss), net of tax:				
Foreign currency translation	893	(599)	(1,722)	178
Pension and other benefits	1,774	1,905	3,540	3,802
Deferred hedging	(650)	(1,449)	(1,948)	3,557
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	2,017	(143)	(130)	7,537
COMPREHENSIVE INCOME	217,401	180,292	450,421	360,402
Less: Comprehensive (loss) income attributable to noncontrolling interest	(69)	206	(39)	935
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 217,470	$ 180,086	$ 450,460	$ 359,467

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT

(in thousands, except per share amounts)

(Unaudited)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders Investment
Balance at October 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				450,458		93	450,551
Other comprehensive income (loss)					2	(132)	(130)
Purchases of common stock		(6,358)					(6,358)
Stock-based compensation expense	1		14,177				14,178
Exercise of stock options/nonvested shares	25		3,466				3,491
Shares retired	(2)	6,358	(6,356)				-
Declared cash dividends $.29 per share				(153,486)			(153,486)
Balance at April 24, 2016	$ 7,765	$ -	$ 11,287	$ 4,513,097	$ (225,666)	$ 3,156	$ 4,309,639

* 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

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	April 24, 2016	April 26, 2015
OPERATING ACTIVITIES		
Net earnings	$ 450,551	$ 352,865
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	59,863	61,760
Amortization of intangibles	4,045	3,967
Goodwill impairment charge	991	-
Equity in earnings of affiliates, net of dividends	(6,524)	487
Provision for deferred income taxes	(2,397)	13,441
Loss (gain) on property/equipment sales and plant facilities	88	(5,129)
Non-cash investment activities	(375)	(2,256)
Stock-based compensation expense	14,178	12,549
Excess tax benefit from stock-based compensation	(36,456)	(10,760)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	57,191	27,316
(Increase) decrease in inventories	(34,052)	90,131
Decrease in prepaid expenses and other current assets	8,913	17,714
Increase in pension and post-retirement benefits	2,346	1,191
Decrease in accounts payable and accrued expenses	(109,227)	(118,875)
Other	-	1,336
NET CASH PROVIDED BY OPERATING ACTIVITIES	409,135	445,737
INVESTING ACTIVITIES		
Purchases of property/equipment	(99,852)	(54,984)
Proceeds from sales of property/equipment	2,709	11,050
Decrease in investments, equity in affiliates, and other assets	12,178	5,379
NET CASH USED IN INVESTING ACTIVITIES	(84,965)	(38,555)
FINANCING ACTIVITIES		
Principal payments on short-term debt	(185,000)	-
Dividends paid on common stock	(142,878)	(118,715)
Share repurchase	(6,358)	-
Proceeds from exercise of stock options	8,370	5,999
Excess tax benefit from stock-based compensation	36,456	10,760
Payment to noncontrolling interest	-	(11,702)
Distribution to noncontrolling interest	-	(1,581)
NET CASH USED IN FINANCING ACTIVITIES	(289,410)	(115,239)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,118)	(1,722)
INCREASE IN CASH AND CASH EQUIVALENTS	32,642	290,221
Cash and cash equivalents at beginning of year	347,239	334,174

CASH AND CASH EQUIVALENTS AT END OF QUARTER	$	379,881	$	624,395

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 basis comparable to fiscal 2015. 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 $2.9 million and $1.2 million for the second quarter and six months ended April 24, 2016, respectively, compared to gains of $1.5 million and $3.0 million for the second quarter and six months ended April 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 either interest and investment income (loss) or interest expense, as appropriate.

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides revocable standby letters of credit totaling $4.0 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 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.

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 amendments allow employers with fiscal year ends that do not coincide with a calendar month end to make an

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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 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. Accordingly, the Company expects to adopt the new provisions of this accounting standard at the beginning of fiscal year 2020, and is currently assessing the impact on its consolidated financial statements.

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.

NOTE B **ACQUISITIONS**

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 that fast growing category.

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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		2,916
Property, plant and equipment		3,463
Intangible assets		275,900
Goodwill		488,353
Current liabilities		(23,420)
Deferred taxes		(20,935)
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 are not presented, as the acquisition was not considered material to the consolidated Company.

On May 2, 2016, subsequent to the end of the second quarter, the Company entered into a definitive agreement to acquire Justin s, LLC (Justin s) for a preliminary purchase price of $286.0 million. The transaction is structured to provide an ongoing cash flow benefit as a result of tax amortization of the stepped-up basis of assets, the net present value of which is approximately $70.0 million.

Justin s is a pioneer in nut butter-based snacking and this acquisition will allow 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 will be included in the Company s Consolidated Statements of Operations from the date of acquisition (i.e. beginning in the third quarter) and will be reflected in the Grocery Products segment.

NOTE C INVENTORIES

Principal components of inventories are:

(in thousands)	April 24, 2016	October 25, 2015
Finished products	$ 608,474	$ 553,298
Raw materials and work-in-process	233,039	239,174
Materials and supplies	185,927	200,793
Total	$ 1,027,440	$ 993,265

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NOTE D GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill for the second quarter and six months ended April 24, 2016, are presented in the table below. Impairment charges during the second quarter are related to the Company s assets held for sale. See additional discussion regarding the Company s assets held for sale in Note E. Purchase accounting adjustments for Applegate reduced the first six months.

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of January 24, 2016	$ 322,421	$ 584,561	$ 203,214	$ 456,416	$ 132,749	$ 1,699,361
Impairment charge	-	-	-	(991)	-	(991)
Balance as of April 24, 2016	$ 322,421	$ 584,561	$ 203,214	$ 455,425	$ 132,749	$ 1,698,370

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of October 25, 2015	$ 322,421	$ 584,684	$ 203,214	$ 456,416	$ 132,749	$ 1,699,484
Purchase adjustments	-	(123)	-	-	-	(123)
Impairment charge	-	-	-	(991)	-	(991)
Balance as of April 24, 2016	$ 322,421	$ 584,561	$ 203,214	$ 455,425	$ 132,749	$ 1,698,370

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

(in thousands)	April 24, 2016		October 25, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	$ 83,190	$ (17,450)	$ 83,190	$ (13,939)
Formulas and recipes	2,190	(1,866)	7,490	(6,865)
Proprietary software and technology	1,010	(901)	7,010	(6,901)
Other intangibles	2,120	(1,222)	2,370	(1,195)
Total	$ 88,510	$ (21,439)	$ 100,060	$ (28,900)

Amortization expense was $1.9 million and $4.0 million for the second quarter and six months ended April 24, 2016, respectively, compared to $1.9 million and $4.0 million for the second quarter and six months ended April 26, 2015.

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

(in millions)	
2016	$ 8.2
2017	7.6
2018	7.0
2019	7.0
2020	6.8

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

(in thousands)	April 24, 2016	October 25, 2015
Brands/tradenames/trademarks	$ 748,075	$ 748,075
Other intangibles	7,984	7,984
Total	$ 756,059	$ 756,059

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NOTE E ASSETS HELD FOR SALE

In fiscal year 2015, the Company began actively marketing a portion of Diamond Crystal Brands (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 April 2016, the Company entered into an agreement for the sale, which completed subsequent to the end of the second quarter. As a result of the expected sale, the Company reallocated goodwill based on the relative fair values of the assets held for sale and the assets that will be retained for the Company. An impairment charge of $1.0 million was recorded based on the valuation of these assets as implied by the agreed-upon sales price. This impairment is recorded on the Company s Consolidated Statements of Operations on the line item Goodwill impairment charge. DCB is reported within the Company s Specialty Foods segment. The portion of the business held for sale is not material to the Company s annual net sales, net earnings, or earnings per share.

Amounts classified as assets and liabilities held for sale at April 24, 2016 are 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	$	26,312
Goodwill		50,134
Intangibles		5,389
Property, plant and equipment		32,177
Total assets held for sale	$	114,012
Liabilities held for sale (in thousands)		
Total current liabilities held for sale	$	3,507

NOTE F PENSION AND OTHER POST-RETIREMENT BENEFITS

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

	Pension Benefits			
	Three Months Ended		Six Months Ended	
(in thousands)	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Service cost	$ 6,680	$ 7,199	$ 13,360	$ 14,398
Interest cost	13,678	13,130	27,356	26,261
Expected return on plan assets	(21,678)	(22,198)	(43,355)	(44,396)
Amortization of prior service cost	(1,066)	(1,219)	(2,132)	(2,439)
Recognized actuarial loss	4,586	4,625	9,171	9,226
Net periodic cost	$ 2,200	$ 1,537	$ 4,400	$ 3,050

	Post-retirement Benefits			
	Three Months Ended		Six Months Ended	
(in thousands)	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Service cost	$ 317	$ 443	$ 633	$ 885
Interest cost	3,236	3,336	6,472	6,672
Amortization of prior service cost	(1,051)	(334)	(2,101)	(668)
Recognized actuarial loss (gain)	392	(1)	784	(1)
Net periodic cost	$ 2,894	$ 3,444	$ 5,788	$ 6,888

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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 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 April 24, 2016, and October 25, 2015, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

	Volume	
Commodity	**April 24, 2016**	**October 25, 2015**
Corn	26.4 million bushels	20.1 million bushels

As of April 24, 2016, the Company has included in AOCL, hedging losses of $2.1 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 losses over the next 12 months.

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

	Volume	
Commodity	**April 24, 2016**	**October 25, 2015**

Corn	1.0 million bushels	5.3 million bushels
Lean hogs	0.2 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 April 24, 2016, and October 25, 2015, the Company had the following outstanding futures related to these programs:

	Volume	
Commodity	**April 24, 2016**	**October 25, 2015**
Corn	3.9 million bushels	2.6 million bushels
Soybean meal	17,900 tons	11,500 tons

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

	Location on Consolidated Statements of Financial Position	Fair Value (1) April 24, 2016	Fair Value (1) October 25, 2015
Asset Derivatives:			
Derivatives Designated as Hedges:			
Commodity contracts	Other current assets	$ (3,370)	$ 305
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	319	248
Total Asset Derivatives		$ (3,051)	$ 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.

Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the second quarter ended April 24, 2016, and April 26, 2015, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1)		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1)		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (4)	
	Three Months Ended			Three Months Ended		Three Months Ended	
Cash Flow Hedges:	April 24, 2016	April 26, 2015		April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Commodity contracts	$ (1,620)	$ (5,033)	Cost of products sold	$ (577)	$ (2,705)	$ (29)	$ -

Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3)	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5)

Fair Value Hedges:		Three Months Ended April 24, 2016	Three Months Ended April 26, 2015	Three Months Ended April 24, 2016	Three Months Ended April 26, 2015
Commodity contracts	Cost of products sold	$ 664	$ (3,769)	$ 13	$ 203

Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Three Months Ended April 24, 2016	Gain/(Loss) Recognized in Earnings Three Months Ended April 26, 2015
Commodity contracts	Cost of products sold	$ 50	$ (264)

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

Cash Flow Hedges:	**Gain/(Loss) Recognized in AOCL (Effective Portion)** (1) **Six Months Ended April 24, 2016**	**April 26, 2015**	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion)** (1) **Six Months Ended April 24, 2016**	**April 26, 2015**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (4) **Six Months Ended April 24, 2016**	**April 26, 2015**
Commodity contracts	$ (4,468)	$ (1,370)	Cost of products sold	$ (1,344)	$ (7,084)	$ (28)	$ -

Fair Value Hedges:	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Recognized in Earnings (Effective Portion)** (3) **Six Months Ended April 24, 2016**	**April 26, 2015**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (5) **Six Months Ended April 24, 2016**	**April 26, 2015**
Commodity contracts	Cost of products sold	$ 1,906	$ (3,937)	$ (239)	$ 93

Derivatives Not Designated as Hedges:	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Recognized in Earnings Six Months Ended April 24, 2016**	**April 26, 2015**
Commodity contracts	Cost of products sold	$ (430)	$ (135)

(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 second quarter or first six months.

(3) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the second quarter or first six months, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity

contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.

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

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

the second quarter or first six months.

NOTE 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	April 24, 2016	October 25, 2015
MegaMex Foods, LLC	Grocery Products	50%	$ 193,659	$ 200,110
Foreign Joint Ventures	International & Other	Various (26-40%)	61,290	58,888
Total			$ 254,949	$ 258,998

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Equity in earnings of affiliates consists of the following:

		Three Months Ended		Six Months Ended	
(in thousands)	Segment	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
MegaMex Foods, LLC	Grocery Products	$ 8,568	$ 7,157	$ 15,773	$ 15,214
Foreign Joint Ventures	International & Other	1,025	717	5,295	(5,680)
Total		$ 9,593	$ 7,874	$ 21,068	$ 9,534

Dividends received from affiliates for the three and six months ended April 24, 2016, were $9.5 million and $14.5 million, respectively, compared to $10.0 million dividends received for both the three and six months ended April 26, 2015. Equity in earnings in the first six 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 $15.7 million is remaining as of April 24, 2016. This difference is being amortized through equity in earnings of affiliates.

NOTE I ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss are as follows:

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at January 24, 2016	$ (1,570)	$ (225,500)	$ (669)	$ (227,739)
Unrecognized gains:				
Gross	949		(1,620)	(671)
Tax effect		(1)	610	609
Reclassification into net earnings:				
Gross		2,861(1)	577(2)	3,438
Tax effect		(1,086)	(217)	(1,303)
Net of tax amount	949	1,774	(650)	2,073
Balance at April 24, 2016	$ (621)	$ (223,726)	$ (1,319)	$ (225,666)

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive

								Loss
Balance at October 25, 2015	$	969	$	(227,266)	$	629	$	(225,668)
Unrecognized gains:								
Gross		(1,590)		(16)		(4,468)		(6,074)
Tax effect				5		1,682		1,687
Reclassification into net earnings:								
Gross				5,722(1)		1,344(2)		7,066
Tax effect				(2,171)		(506)		(2,677)
Net of tax amount		(1,590)		3,540		(1,948)		2
Balance at April 24, 2016	$	(621)	$	(223,726)	$	(1,319)	$	(225,666)

(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.

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NOTE J INCOME TAXES

The amount of unrecognized tax benefits, including interest and penalties, at April 24, 2016, recorded in other long-term liabilities was $28.1 million, of which $18.3 million would impact the Company s effective tax rate if recognized. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense, with $0.7 million and $0.4 million of accrued interest and penalty benefits included in the second quarter and first six months, respectively of fiscal 2016. The amount of accrued interest and penalties at April 24, 2016, associated with unrecognized tax benefits was $2.9 million.

The Company is regularly audited by federal and state taxing authorities. The United States Internal Revenue Service (I.R.S.) is currently examining fiscal years 2013 and 2014. 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.

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 April 24, 2016, and changes during the six 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	2,104	38.31		
Exercised	3,374	9.52		
Forfeited	15	18.90		
Outstanding at April 24, 2016	33,112	$ 15.83	5.2 years	$ 724,297
Exercisable at April 24, 2016	26,212	$ 12.73	4.3 years	$ 653,461

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

	Three Months Ended		**Six Months Ended**	
	April 24, 2016	**April 26, 2015**	**April 24, 2016**	**April 26, 2015**
Weighted-average grant date fair value	$ 8.36	$ 9.00	$ 7.82	$ 9.84
Intrinsic value of exercised options	$ 45,081	$ 23,409	$ 103,216	$ 32,601

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

	Three Months Ended		Six Months Ended	
	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Risk-free interest rate	1.9%	1.6%	2.1%	2.1%
Dividend yield	1.4%	1.9%	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.

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

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 25, 2015	74	$ 25.87
Granted	47	41.01
Vested	74	25.87
Nonvested at April 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 six months of fiscal years 2016 and 2015, are as follows:

	Six Months Ended	
	April 24, 2016	April 26, 2015
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 second quarter and first six months of fiscal years 2016 and 2015 is presented in the table below.

	Three Months Ended		Six Months Ended	
(in thousands)	**April 24, 2016**	**April 26, 2015**	**April 24, 2016**	**April 26, 2015**
Stock-based compensation expense recognized	$ 7,016	$ 7,025	$ 14,178	$ 12,549
Income tax benefit recognized	(2,662)	(2,668)	(5,379)	(4,765)
After-tax stock-based compensation expense	$ 4,354	$ 4,357	$ 8,799	$ 7,784

At April 24, 2016, there was $13.4 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 2.9 years. During the second quarter and six months ended April 24, 2016, cash received from stock option exercises was $4.9 million and $8.4 million, respectively, compared to $3.9

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million and $6.0 million for the second quarter and six months ended April 26, 2015. The total tax benefit to be realized for tax deductions from these option exercises for the second quarter and six months ended April 24, 2016, was $17.2 million and $39.2 million, respectively, compared to $8.9 million and $12.4 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:

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

		Fair Value Measurements at April 24, 2016		
(in thousands)	Fair Value at April 24, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets at Fair Value:								
Cash and cash equivalents (1)	$	379,881	$	379,881	$	-	$	-
Other trading securities (2)		120,820		39,429		81,391		-
Commodity derivatives (3)		2,666		2,666		-		-
Total Assets at Fair Value	$	503,367	$	421,976	$	81,391	$	-
Liabilities at Fair Value:								
Deferred compensation (2)	$	56,982	$	26,131	$	30,851	$	-
Total Liabilities at Fair Value	$	56,982	$	26,131	$	30,851	$	-

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(in thousands)	Fair Value at October 25, 2015	Fair Value Measurements 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)
Assets at Fair Value:				
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	-	-
Total Assets at Fair Value	$ 473,392	$ 393,053	$ 80,339	$ -
Liabilities at Fair Value:				
Deferred compensation (2)	$ 57,869	$ 25,272	$ 32,597	$ -
Total Liabilities at Fair Value	$ 57,869	$ 25,272	$ 32,597	$ -

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

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

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

(3) The Company s commodity derivatives represent futures contracts used in its hedging or other programs to offset price fluctuations associated with purchases of corn, and to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The Company s futures contracts for corn are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of April 24, 2016, the Company has recognized the obligation to return net cash collateral of $0.4 million from various counterparties (including $0.6 million of cash less $1.0 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 $273.8 million as of April 24, 2016, and $268.4 million as of October 25, 2015.

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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 six months ended April 26, 2015, there were no material 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:

	Three Months Ended		Six Months Ended	
(in thousands)	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Basic weighted-average shares outstanding	529,898	528,056	529,380	527,704
Dilutive potential common shares	13,871	12,832	13,873	12,801
Diluted weighted-average shares outstanding	543,769	540,888	543,253	540,505

For the six months ended April 24, 2016, 0.5 million weighted-average stock options 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 2.3 million and 1.9 million for the second quarter and six months ended April 26, 2015.

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 Farms, LLC 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 products, nutritional products, sugar, and condiments to industrial, retail, and foodservice customers. At the end of fiscal 2015, a portion of DCB was classified as held for sale. 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;

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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.

	Three Months Ended		Six Months Ended	
(in thousands)	April 24, 2016	April 26, 2015	April 24, 2016	April 26, 2015
Sales to Unaffiliated Customers				
Grocery Products	$ 401,472	$ 397,265	$ 793,690	$ 807,016
Refrigerated Foods	1,092,479	1,022,511	2,254,600	2,166,726
Jennie-O Turkey Store	423,540	438,912	795,606	878,931
Specialty Foods	272,484	287,424	510,263	550,698
International & Other	110,260	133,233	238,748	271,047
Total	$ 2,300,235	$ 2,279,345	$ 4,592,907	$ 4,674,418
Intersegment Sales				
Grocery Products	$ -	$ -	$ -	$ -
Refrigerated Foods	3,657	3,560	5,987	7,743
Jennie-O Turkey Store	30,280	36,398	60,683	71,782
Specialty Foods	9	25	9	46
International & Other	-	-	-	-
Total	$ 33,946	$ 39,983	$ 66,679	$ 79,571
Intersegment elimination	(33,946)	(39,983)	(66,679)	(79,571)
Total	$ -	$ -	$ -	$ -
Net Sales				
Grocery Products	$ 401,472	$ 397,265	$ 793,690	$ 807,016
Refrigerated Foods	1,096,136	1,026,071	2,260,587	2,174,469
Jennie-O Turkey Store	453,820	475,310	856,289	950,713
Specialty Foods	272,493	287,449	510,272	550,744
International & Other	110,260	133,233	238,748	271,047
Intersegment elimination	(33,946)	(39,983)	(66,679)	(79,571)
Total	$ 2,300,235	$ 2,279,345	$ 4,592,907	$ 4,674,418
Segment Operating Profit				
Grocery Products	$ 67,110	$ 55,327	$ 132,383	$ 96,702
Refrigerated Foods	130,002	114,837	296,910	215,989
Jennie-O Turkey Store	89,678	74,596	180,981	167,616
Specialty Foods	36,853	21,144	63,646	39,720
International & Other	14,244	21,383	38,531	35,767
Total segment operating profit	$ 337,887	$ 287,287	$ 712,451	$ 555,794
Net interest and investment expense (income)	(380)	1,966	4,990	3,895
General corporate expense	14,057	9,824	29,189	13,077
Noncontrolling interest	(13)	234	93	946
Earnings before income taxes	$ 324,197	$ 275,731	$ 678,365	$ 539,768

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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.

All shares and per share calculations for the current and prior year throughout the following discussion reflect the impact of the two-for-one split of the Company s stock distributed on February 9, 2016.

The Company reported record net earnings per diluted share of $0.40 for the second quarter of fiscal 2016, compared to $0.33 per diluted share in the second quarter of fiscal 2015. Significant factors impacting the quarter were:

- Record net earnings, with four of the Company s five segments generating segment profit growth.
- Grocery Products segment profit benefitted from favorable raw material costs and improved plant efficiencies.
- Refrigerated Foods segment profit increased driven by strong pork operating margins, the addition of the Applegate Farms, LLC (Applegate) business, and value-added product growth.
- Specialty Foods delivered robust segment profit gains driven by lower input costs, a favorable comparison to the prior year, and supply chain synergies.
- Profitability rose for Jennie-O Turkey Store on improved product mix and favorable input costs.

- International & Other segment profit results were challenged by high pork input costs in China and soft export demand.

Consolidated Results

Net earnings and diluted earnings per share

(in millions, except per share amounts)	Three Months Ended April 24, 2016	Three Months Ended April 26, 2015	% Change	Six Months Ended April 24, 2016	Six Months Ended April 26, 2015	% Change
Net earnings	$ 215.4	180.2	19.5	$ 450.5	351.9	28.0
Diluted earnings per share	0.40	0.33	21.2	0.83	0.65	27.7
Adjusted(1) net earnings	215.4	180.2	19.5	450.5	367.5	22.6
Adjusted(1) diluted earnings per share	0.40	0.33	21.2	0.83	0.68	22.1

The non-GAAP adjusted financial measurements for the first six months are presented to provide investors additional information to facilitate the comparison of past and present operations, with no impact to the second quarter comparisons. The non-GAAP adjusted financial measurements are used for internal purposes to evaluate the results of operations and to measure a component of certain employee incentive plans in fiscal year 2015. Non-GAAP measurements are not intended to be a substitute for U.S. GAAP measurements in analyzing financial performance. These non-GAAP measurements are not in accordance with generally accepted accounting principles and may be different from non-GAAP measures used by other companies.

(1)Adjusted net earnings and diluted net earnings per share for the first six months exclude nonrecurring charges relating to the closure of the Stockton, California, manufacturing facility and the exit from international joint venture businesses in the first quarter of fiscal 2015. The table below shows the calculations to reconcile from the non-GAAP adjusted measures to the GAAP measures for the first six months of fiscal year 2016 compared to the first six months of fiscal 2015.

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Six Months Ended April 24, 2016

(in thousands, except per share amounts)	2016 Earnings	2015 Non-GAAP Adjusted Earnings	Stockton Plant Closure	International Business Exit	2015 GAAP Earnings
Grocery Products	$ 132,383	$ 107,228	$ (10,526)	$ -	$ 96,702
Refrigerated Foods	296,910	215,989	-	-	215,989
Jennie-O Turkey Store	180,981	167,616	-	-	167,616
Specialty Foods	63,646	39,720	-	-	39,720
International & Other	38,531	45,313	-	(9,546)	35,767
Total segment operating profit	712,451	575,866	(10,526)	(9,546)	555,794
Net interest & investment expense	(29,189)	(3,895)	-	-	(3,895)
General corporate expense	(4,990)	(13,077)	-	-	(13,077)
Earnings before income taxes	678,272	558,894	(10,526)	(9,546)	535,822
Income taxes	(227,814)	(191,358)	3,685	770	(186,903)
Net earnings attributable to Hormel Foods Corporation	$ 450,458	$ 367,536	$ (6,841)	$ (8,776)	$ 351,919
Diluted net earnings per share*	$ 0.83	$ 0.68	$ (0.02)	$ (0.02)	$ 0.65

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

Net sales

	Three Months Ended			Six Months Ended		
(in millions)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change
Net sales	$ 2,300	$ 2,279	0.9	$ 4,593	$ 4,674	(1.7)
Tonnage (lbs.)	1,281	1,289	(0.6)	2,551	2,595	(1.7)

Net sales were enhanced by the addition of Applegate in the Refrigerated Foods segment.

Continued strong value-added product sales within the Refrigerated Foods and Grocery Products segments offset lower turkey volumes in the Jennie-O Turkey Store (JOTS) segment and soft export demand in the International & Other segment for both the second quarter and first six months of fiscal 2016.

Cost of products sold

	Three Months Ended			Six Months Ended		
(in millions)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change

Cost of products sold	$	1,774	$	1,820	(2.5)	$	3,509	$	3,770	(6.9)

The decrease in cost of products sold for the second quarter of fiscal 2016 is largely 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. Aiding the comparative results for the first six months, charges totaling $10.5 million related to the closure of the Stockton, California, manufacturing impacted fiscal 2015 results.

Gross profit

	Three Months Ended			Six Months Ended		
(in millions)	**April 24, 2016**	**April 26, 2015**	**% Change**	**April 24, 2016**	**April 26, 2015**	**% Change**
Gross profit	$ 526.4	$ 459.6	14.5	$ 1,084.4	$ 904.2	19.9
Percentage of net sales	22.9%	20.2%		23.6%	19.3%	

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Higher profits from the Grocery Products, Refrigerated Foods, JOTS, and Specialty Foods segments in the second quarter of fiscal 2016 offset lower results in the International & Other segment. Results in the Refrigerated Foods and Grocery Products segments were driven by favorable pork operating margins and value-added sales growth. Specialty Foods improved profits through efficiency gains and increased sales of *Muscle Milk* protein products along with a favorable comparison as the prior year included plant closure expenses. These gains offset overall lower sales in JOTS due to the lingering effects of Highly Pathogenic Avian Influenza (HPAI) and International & Other as the segment was challenged by weak exports and high pork costs in China.

The Company expects the Refrigerated Foods and Grocery Products segments to continue driving profit improvement through growth in value-added products combined with favorable input costs. As turkey production has returned to normalized levels, JOTS is positioned to deliver profit growth in the second half of fiscal 2016. The Specialty Foods segment may not show year-over-year increases in sales and profits as a result of the divesture of Diamond Crystal Brands (DCB), which was completed subsequent to the end of the second quarter. The International & Other segment is expected to return to growth in the second half of fiscal 2016 led by improved export sales.

Selling, general and administrative (SG&A)

	Three Months Ended			Six Months Ended		
(in millions)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change
SG&A	$ 211.1	$ 189.7	11.3	$ 421.1	$ 370.0	13.8
Percentage of net sales	9.2%	8.3%		9.2%	7.9%	

The increase in SG&A for both the second quarter and first six months of fiscal 2016 largely represents the inclusion of Applegate expenses as well as increased advertising and employee-related expenses. The Company continues to reinvest in the business through increased advertising and marketing support for brands such as *Hormel* pepperoni, the *SPAM* family of products, *SKIPPY* peanut butter, *MUSCLE MILK* protein products, and *Jennie-O* turkey.

Equity in earnings of affiliates

	Three Months Ended			Six Months Ended		
(in millions)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change
Equity in earnings of affiliates	$ 9.6	$ 7.9	21.5	$ 21.1	$ 9.5	122.1

The improved results for the second quarter reflect strong sales volumes and lower expenses. The first six months results are impacted by a favorable comparison to the first six months of fiscal 2015 which included charges related to the exit from international joint venture businesses.

Effective tax rate

	Three Months Ended		Six Months Ended	
	April 24, 2016	**April 26, 2015**	**April 24, 2016**	**April 26, 2015**
Effective tax rate	33.6%	34.6%	33.6%	34.6%

The lower rate for the second quarter and first six months of fiscal 2016 is primarily due to the resolution of net favorable adjustments and settlements with various state tax jurisdictions, relative to fiscal 2015. The Company expects a full-year effective tax rate between 33.5 and 34.0 percent for fiscal 2016.

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Segment Results

Net sales and operating profits for each of the Company s reportable segments are set forth below. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent that these segments, if operated independently, would report the operating profit and other financial information shown below. Additional segment financial information can be found in Note M of the Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

	Three Months Ended			Six Months Ended		
(in thousands)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change
Net Sales						
Grocery Products	$ 401,472	$ 397,265	1.1	$ 793,690	$ 807,016	(1.7)
Refrigerated Foods	1,092,479	1,022,511	6.8	2,254,600	2,166,726	4.1
Jennie-O Turkey Store	423,540	438,912	(3.5)	795,606	878,931	(9.5)
Specialty Foods	272,484	287,424	(5.2)	510,263	550,698	(7.3)
International & Other	110,260	133,233	(17.2)	238,748	271,047	(11.9)
Total	$ 2,300,235	$ 2,279,345	0.9	$ 4,592,907	$ 4,674,418	(1.7)
Segment Operating Profit						
Grocery Products	$ 67,110	$ 55,327	21.3	$ 132,383	$ 96,702	36.9
Refrigerated Foods	130,002	114,837	13.2	296,910	215,989	37.5
Jennie-O Turkey Store	89,678	74,596	20.2	180,981	167,616	8.0
Specialty Foods	36,853	21,144	74.3	63,646	39,720	60.2
International & Other	14,244	21,383	(33.4)	38,531	35,767	7.7
Total segment operating profit	$ 337,887	$ 287,287	17.6	$ 712,451	$ 555,794	28.2
Net interest and investment expense (income)	(380)	1,966	(119.3)	4,990	3,895	28.1
General corporate expense	14,057	9,824	43.1	29,189	13,077	123.2
Noncontrolling interest	(13)	234	(105.6)	93	946	(90.2)
Earnings before income taxes	$ 324,197	$ 275,731	17.6	$ 678,365	$ 539,768	25.7

Grocery Products

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

	Three Months Ended			Six Months Ended		
(in thousands)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change
Net sales	$ 401,472	$ 397,265	1.1	$ 793,690	$ 807,016	(1.7)
Tonnage (lbs.)	218,674	219,868	(0.5)	436,939	450,795	(3.1)
Segment profit	$ 67,110	$ 55,327	21.3	$ 132,383	$ 96,702	36.9

Sales growth from *SKIPPY* peanut butter, *Hormel* chili, *Wholly Guacamole* dips, and the *Herdez* line of salsas contributed to the improved sales results in the second quarter of fiscal 2016, offsetting lower chunk meat sales. Sales of *Hormel Compleats* microwave meals also declined during the second quarter. For the first six months, lower canned meat sales led to the net sales decline.

Grocery Products continues to drive sales by leveraging the Company s iconic brands in new and innovative ways.

Segment profit results benefitted from favorable pork and beef input costs in fiscal 2016. Aiding the year-over-year comparison for the first six months, charges totaling $10.5 million related to the closure of the Stockton, California, manufacturing facility impacted the first quarter of fiscal 2015.

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The Company anticipates segment profit growth in the third quarter, with continued favorable raw material markets, lower plant costs, and volume growth in key categories.

The third quarter will include the addition of Justin s, LLC (Justin s), but the benefit of that business is expected to be offset by the expected transaction costs and fair value adjustments related to the transaction. The benefits of this acquisition should be fully realized in fiscal 2017.

Refrigerated Foods

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

	Three Months Ended			Six Months Ended		
(in thousands)	April 24, 2016	April 26, 2015	% Change	April 24, 2016	April 26, 2015	% Change