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

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

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

Class	**Outstanding at February 28, 2016**	
Common Stock	$.01465 par value	529,917,508
Common Stock Non-Voting	$.01 par value	-0-

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	January 24, 2016 (Unaudited)	October 25, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 375,215	$ 347,239
Accounts receivable	554,738	605,689
Inventories	994,826	993,265
Income taxes receivable	-	6,132
Deferred income taxes	-	86,902
Prepaid expenses	13,820	14,383
Other current assets	7,484	9,422
TOTAL CURRENT ASSETS	1,946,083	2,063,032
DEFERRED INCOME TAXES	20,992	-
GOODWILL	1,699,361	1,699,484
OTHER INTANGIBLES	825,069	827,219
PENSION ASSETS	136,917	132,861
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	253,589	258,998
OTHER ASSETS	144,875	146,498
PROPERTY, PLANT AND EQUIPMENT		
Land	70,860	71,192
Buildings	817,691	815,643
Equipment	1,690,232	1,679,100
Construction in progress	94,682	79,964
	2,673,465	2,645,899
Less allowance for depreciation	(1,659,462)	(1,634,160)
	1,014,003	1,011,739
TOTAL ASSETS	$ 6,040,889	$ 6,139,831

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)

	January 24, 2016 (Unaudited)	October 25, 2015
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 411,031	$ 495,317
Short-term debt	-	185,000
Accrued expenses	84,262	71,777
Accrued workers compensation	37,683	37,009
Accrued marketing expenses	153,248	119,153
Employee related expenses	164,288	232,309
Taxes payable	89,859	6,764
Interest and dividends payable	79,727	66,696
TOTAL CURRENT LIABILITIES	1,020,098	1,214,025
LONG-TERM DEBT less current maturities	250,000	250,000
PENSION AND POST-RETIREMENT BENEFITS	511,615	509,261
OTHER LONG-TERM LIABILITIES	95,663	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 529,366,392 shares January 24, 2016 issued 528,411,628 shares October 25, 2015	7,755	7,741
Additional paid-in capital	5,676	-
Accumulated other comprehensive loss	(227,739)	(225,668)
Retained earnings	4,374,596	4,216,125
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	4,160,288	3,998,198
NONCONTROLLING INTEREST	3,225	3,195
TOTAL SHAREHOLDERS INVESTMENT	4,163,513	4,001,393
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 6,040,889	$ 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

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended January 24, 2016	Three Months Ended January 25, 2015*
Net sales	$ 2,292,672	$ 2,395,073
Cost of products sold	1,734,661	1,950,468
GROSS PROFIT	558,011	444,605
Selling, general and administrative	209,948	180,299
Equity in earnings of affiliates	11,475	1,660
OPERATING INCOME	359,538	265,966
Other income and expense:		
Interest and investment (expense) income	(1,963)	1,149
Interest expense	(3,407)	(3,078)
EARNINGS BEFORE INCOME TAXES	354,168	264,037
Provision for income taxes	119,001	91,607
NET EARNINGS	235,167	172,430
Less: Net earnings attributable to noncontrolling interest	106	712
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 235,061	$ 171,718
NET EARNINGS PER SHARE:		
BASIC	$ 0.44	$ 0.33
DILUTED	$ 0.43	$ 0.32
WEIGHTED-AVERAGE SHARES OUTSTANDING:		
BASIC	528,862	527,352
DILUTED	542,737	540,123
DIVIDENDS DECLARED PER SHARE:	$ 0.145	$ 0.125

* 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)

	Three Months Ended	
	January 24, 2016	January 25, 2015
NET EARNINGS	$ 235,167	$ 172,430
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(2,615)	777
Pension and other benefits	1,766	1,897
Deferred hedging	(1,298)	5,006
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(2,147)	7,680
COMPREHENSIVE INCOME	233,020	180,110
Less: Comprehensive income attributable to noncontrolling interest	30	729
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 232,990	$ 179,381

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT

(in thousands, except per share amounts)

(Unaudited)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders Investment
Balance at October 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				235,061		106	235,167
Other comprehensive loss					(2,071)	(76)	(2,147)
Stock-based compensation expense			7,162				7,162
Exercise of stock options/nonvested shares	14		(1,486)				(1,472)
Declared cash dividends $.145 per share				(76,590)			(76,590)
Balance at January 24, 2016	$ 7,755	$ -	$ 5,676	$ 4,374,596	$ (227,739)	$ 3,225	$ 4,163,513

* 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 CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended	
	January 24, 2016	January 25, 2015
OPERATING ACTIVITIES		
Net earnings	$ 235,167	$ 172,430
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	29,679	30,720
Amortization of intangibles	2,125	2,039
Equity in earnings of affiliates, net of dividends	(6,454)	(1,639)
Provision for deferred income taxes	(1,735)	1,161
Gain on property/equipment sales and plant facilities	126	(5,117)
Non-cash investment activities	2,081	(1,068)
Stock-based compensation expense	7,162	5,524
Excess tax benefit from stock-based compensation	(20,149)	(2,963)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	50,951	31,288
(Increase) decrease in inventories	(1,439)	36,824
Decrease in prepaid expenses and other current assets	7,917	18,354
Increase in pension and post-retirement benefits	1,047	327
Decrease in accounts payable and accrued expenses	(27,787)	(39,944)
Other	-	(1,434)
NET CASH PROVIDED BY OPERATING ACTIVITIES	278,691	246,502
INVESTING ACTIVITIES		
Purchases of property/equipment	(33,480)	(27,674)
Proceeds from sales of property/equipment	1,411	9,931
Decrease in investments, equity in affiliates, and other assets	11,088	14,932
NET CASH USED IN INVESTING ACTIVITIES	(20,981)	(2,811)
FINANCING ACTIVITIES		
Principal payments on short-term debt	(185,000)	-
Dividends paid on common stock	(66,137)	(52,801)
Proceeds from exercise of stock options	3,514	2,057
Excess tax benefit from stock-based compensation	20,149	2,963
Distribution to noncontrolling interest	-	(1,581)
NET CASH USED IN FINANCING ACTIVITIES	(227,474)	(49,362)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,260)	(1,406)
INCREASE IN CASH AND CASH EQUIVALENTS	27,976	192,923
Cash and cash equivalents at beginning of year	347,239	334,174
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 375,215	$ 527,097

See Notes to Consolidated Financial Statements

Table of Contents

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. The number of authorized shares of non-voting common stock and preferred stock were not included in the stock split.

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 a loss of $1.7 million for the quarter ended January 24, 2016, compared to a gain of $1.5 million for the quarter ended January 25, 2015.

Table of Contents

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 worker 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 adoption is not expected to have a material 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 new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company expects to adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

In April 2015, the FASB updated the guidance within ASC 715, *Compensation-Retirement Benefits*. The update provides guidance on simplifying the measurement date for defined benefit plan assets and obligations. The amendments allow employers with fiscal year ends that do not coincide with a calendar month end to make an

Table of Contents

accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year ends. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company 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 provisions of this new accounting standard at the beginning of fiscal year 2016, and adoption 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 new 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 provisions of this new 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 new 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 provisions of this new accounting standard at the beginning of fiscal year 2020, and is currently assessing the impact on its consolidated financial statements.

NOTE B ACQUISITIONS

On July 13, 2015, the Company acquired Applegate Farms, LLC (Applegate) of Bridgewater, New Jersey for a preliminary purchase price of $774.1 million in cash. The purchase price is preliminary pending final purchase accounting adjustments, and was funded by the Company with cash on hand and by utilizing 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.

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

(in thousands)		
Accounts receivable	$	25,574
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

Table of Contents

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. The acquisition contributed $76.3 million of net sales for the first quarter of fiscal 2016. Pro forma results are not presented, as the acquisition was not considered material to the consolidated Company.

NOTE C INVENTORIES

Principal components of inventories are:

(in thousands)	January 24, 2016	October 25, 2015
Finished products	$ 561,324	$ 553,298
Raw materials and work-in-process	236,748	239,174
Materials and supplies	196,754	200,793
Total	$ 994,826	$ 993,265

NOTE D GOODWILL AND INTANGIBLE ASSETS

The carrying amounts of goodwill for the quarter ended January 24, 2016, are presented in the table below. The reduction during the first quarter is due to purchase accounting adjustments for Applegate.

(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 adjustment	-	(123)	-	-	-	(123)
Balance as of January 24, 2016	$ 322,421	$ 584,561	$ 203,214	$ 456,416	$ 132,749	$ 1,699,361

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

	January 24, 2016		October 25, 2015	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	$ 83,190	$ (15,699)	$ 83,190	$ (13,939)
Formulas and recipes	7,490	(7,117)	7,490	(6,865)
Proprietary software and technology	1,010	(901)	7,010	(6,901)
Other intangibles	2,120	(1,083)	2,370	(1,195)
Total	$ 93,810	$ (24,800)	$ 100,060	$ (28,900)

Amortization expense was $2.1 million for the quarters ended January 24, 2016 and January 25, 2015.

Table of Contents

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

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. 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 January 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	$ 27,850
Goodwill	51,811
Intangibles	5,389
Property, plant and equipment	31,837
Total assets held for sale	$ 116,887

Liabilities held for sale (in thousands)	
Total current liabilities held for sale	$ 2,179

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		**Post-retirement Benefits Three Months Ended**	
(in thousands)	**January 24, 2016**	**January 25, 2015**	**January 24, 2016**	**January 25, 2015**
Service cost	$ 6,680	$ 7,199	$ 316	$ 442
Interest cost	13,678	13,131	3,236	3,336
Expected return on plan assets	(21,677)	(22,198)	-	-
Amortization of prior service cost	(1,066)	(1,220)	(1,050)	(334)
Recognized actuarial loss	4,585	4,601	392	-
Net periodic cost	$ 2,200	$ 1,513	$ 2,894	$ 3,444

Table of Contents

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 January 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	**January 24, 2016**	**October 25, 2015**
Corn	20.9 million bushels	20.1 million bushels

As of January 24, 2016, the Company has included in AOCL, hedging losses of $1.1 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 January 24, 2016, and October 25, 2015, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

Volume

Commodity	January 24, 2016	October 25, 2015
Corn	1.7 million bushels	5.3 million bushels
Lean hogs	0.8 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 January 24, 2016, and October 25, 2015, the Company had the following outstanding futures related to these programs:

	Volume	
Commodity	**January 24, 2016**	**October 25, 2015**
Corn	3.3 million bushels	2.6 million bushels
Soybean meal	16,400 tons	11,500 tons

Table of Contents

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

	Location on Consolidated Statements of Financial Position	Fair Value (1) January 24, 2016	Fair Value (1) October 25, 2015
Asset Derivatives:			
Derivatives Designated as Hedges:			
Commodity contracts	Other current assets	$ (2,959)	$ 305
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	(86)	248
Total Asset Derivatives		$ (3,045)	$ 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 first quarter ended January 24, 2016, and January 25, 2015, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Three Months Ended		Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Three Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(4) Three Months Ended	
Cash Flow Hedges:	**January 24, 2016**	**January 25, 2015**		**January 24, 2016**	**January 25, 2015**	**January 24, 2016**	**January 25, 2015**
Commodity contracts	$ (2,848)	$ 3,663	Cost of products sold	$ (767)	$ (4,379)	$ 1	$ -

	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Three Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(5) Three Months Ended	
Fair Value Hedges:		**January 24, 2016**	**January 25, 2015**	**January 24, 2016**	**January 25, 2015**

Commodity contracts	Cost of products sold	$ 1,242	$ (168)	$ (252)	$ (110)

Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Three Months Ended January 24, 2016	Gain/(Loss) Recognized in Earnings Three Months Ended January 25, 2015
Commodity contracts	Cost of products sold	$ (480)	$ 129

(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 quarter.

(3) Amounts represent gains on commodity contracts designated as fair value hedges that were closed during the quarter, which were offset by a corresponding loss 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 quarter.

(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 quarter.

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	January 24, 2016	October 25, 2015
MegaMex Foods, LLC	Grocery Products	50%	$ 192,579	$ 200,110
Foreign Joint Ventures	International & Other	Various (26-40%)	61,010	58,888
Total			$ 253,589	$ 258,998

Equity in earnings of affiliates consists of the following:

		Three Months Ended	
(in thousands)	Segment	January 24, 2016	January 25, 2015
MegaMex Foods, LLC	Grocery Products	$ 7,205	$ 8,057
Foreign Joint Ventures	International & Other	4,270	(6,397)
Total		$ 11,475	$ 1,660

Dividends received from affiliates for the three months ended January 24, 2016 were $5.0 million, compared to twenty-two thousand dollars of dividends received for the three months ended January 25, 2015.

The Company recognized a basis difference of $21.3 million associated with the formation of MegaMex Foods, LLC, of which $15.9 million is remaining as of January 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 October 25, 2015	$ 969	$ (227,266)	$ 629	$ (225,668)
Unrecognized gains (losses):				
Gross	(2,539)	(16)	(2,848)	(5,403)
Tax effect	-	6	1,072	1,078
Reclassification into net earnings:				
Gross	-	2,861(1)	767(2)	3,628
Tax effect	-	(1,085)	(289)	(1,374)
Net of tax amount	(2,539)	1,766	(1,298)	(2,071)
Balance at January 24, 2016	$ (1,570)	$ (225,500)	$ (669)	$ (227,739)

(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.

Table of Contents

NOTE J INCOME TAXES

The amount of unrecognized tax benefits, including interest and penalties, at January 24, 2016, recorded in other long-term liabilities was $25.6 million, of which $16.6 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 $0.3 million net interest or penalties included in expense in the first quarter of fiscal 2016. The amount of accrued interest and penalties at January 24, 2016, associated with unrecognized tax benefits was $3.5 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 entered into a voluntary program with the I.R.S. called 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 January 24, 2016, and changes during the quarter 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	1,745	37.76		
Exercised	2,019	9.36		

Forfeited	1	9.35		
Outstanding at January 24, 2016	34,122	$15.32	5.3 years	$ 773,444
Exercisable at January 24, 2016	26,600	$12.37	4.4 years	$ 681,587

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

	Three Months Ended	
	January 24, 2016	**January 25, 2015**
Weighted-average grant date fair value	$ 7.71	$ 5.04
Intrinsic value of exercised options	$ 58,052	$ 9,192

Table of Contents

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	
	January 24, 2016	**January 25, 2015**
Risk-free interest rate	2.1 %	2.2 %
Dividend yield	1.5 %	1.9 %
Stock price volatility	19.0%	19.0%
Expected option life	8 years	8 years

As part of the annual valuation process, the Company reassesses the appropriateness of the inputs used in the valuation models. The Company establishes the risk-free interest rate using stripped U.S. Treasury yields as of the grant date where the remaining term is approximately the expected life of the option. The dividend yield is set based on the dividend rate approved by the Company s Board of Directors and the stock price on the grant 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. There were no changes to the balance of nonvested shares during the first quarter, with 74 thousand shares outstanding at a weighted-average grant date fair value of $25.87 as of January 24, 2016.

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

	Three Months Ended	
(in thousands)	**January 24, 2016**	**January 25, 2015**
Stock-based compensation expense recognized	$ 7,162	$ 5,524
Income tax benefit recognized	2,717	2,097
After-tax stock-based compensation expense	$ 4,445	$ 3,427

At January 24, 2016, there was $15.6 million of total unrecognized compensation expense from stock-based compensation arrangements granted under the plans. This compensation is expected to be recognized over a weighted-average period of approximately 3.1 years. During the quarter ended January 24, 2016, cash received from stock option exercises was $3.5 million compared to $2.1 million for the quarter ended January 25, 2015. The total tax benefit to be realized for tax deductions from these option exercises for the quarter ended January 24, 2016, was $22.0 million compared to $3.5 million in the comparable quarter 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.

Table of Contents

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

		Fair Value Measurements at January 24, 2016		
(in thousands)	**Fair Value at January 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)	$ 375,215	$ 375,215	$ -	$ -
Other trading securities (2)	117,976	37,109	80,867	-
Commodity derivatives (3)	5,707	5,707	-	-
Total Assets at Fair Value	$ 498,898	$ 418,031	$ 80,867	$ -
Liabilities at Fair Value:				
Deferred compensation (2)	$ 55,466	$ 24,115	$ 31,351	$ -
Total Liabilities at Fair Value	$ 55,466	$ 24,115	$ 31,351	$ -

		Fair Value Measurements at October 25, 2015		
(in thousands)				

	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)
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	$ -

Table of Contents

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 soybean meal, and to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The Company s futures contracts for corn and soybean meal are traded on the Chicago Board of Trade, while futures contracts for lean hogs are traded on the Chicago Mercantile Exchange. These are active markets with quoted prices available and therefore these contracts are classified as Level 1. All derivatives are reviewed for potential credit risk and risk of nonperformance. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The net balance for each program is included in other current assets or accounts payable, as appropriate, in the Consolidated Statements of Financial Position. As of January 24, 2016, the Company has recognized the right to reclaim net cash collateral of $2.2 million from various counterparties (including $2.4 million of cash less $0.2 million of realized losses 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 $269.5 million as of January 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 first quarter ended January 24, 2016, and January 25, 2015, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Table of Contents

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:

(in thousands)	Three Months Ended January 24, 2016	January 25, 2015
Basic weighted-average shares outstanding	528,862	527,352
Dilutive potential common shares	13,875	12,771
Diluted weighted-average shares outstanding	542,737	540,123

For the three months ended January 24, 2016, and January 25, 2015, a total of 1.0 million and 1.4 million weighted- average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share.

NOTE 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 (Applegate) and Affiliated Foods (Farmer John, Burke, and Dan s Prize).

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. This segment includes the results of DCB, CytoSport/Century Foods International, and Hormel Specialty Products (HSP). 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; 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.

Table of Contents

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			
(in thousands)		January 24, 2016		January 25, 2015
Sales to Unaffiliated Customers				
Grocery Products	$	392,218	$	409,751
Refrigerated Foods		1,162,121		1,144,215
Jennie-O Turkey Store		372,066		440,019
Specialty Foods		237,779		263,274
International & Other		128,488		137,814
Total	$	2,292,672	$	2,395,073
Intersegment Sales				
Grocery Products	$	-	$	-
Refrigerated Foods		2,330		4,183
Jennie-O Turkey Store		30,403		35,384
Specialty Foods		-		21
International & Other		-		-
Total	$	32,733	$	39,588
Intersegment elimination		(32,733)		(39,588)
Total	$	-	$	-
Net Sales				
Grocery Products	$	392,218	$	409,751
Refrigerated Foods		1,164,451		1,148,398
Jennie-O Turkey Store		402,469		475,403
Specialty Foods		237,779		263,295
International & Other		128,488		137,814
Intersegment elimination		(32,733)		(39,588)
Total	$	2,292,672	$	2,395,073
Segment Operating Profit				
Grocery Products	$	65,273	$	41,375
Refrigerated Foods		166,908		101,152
Jennie-O Turkey Store		91,303		93,020
Specialty Foods		26,793		18,576
International & Other		24,287		14,384
Total segment operating profit	$	374,564	$	268,507
Net interest and investment expense (income)		5,370		1,929
General corporate expense		15,132		3,253
Noncontrolling interest		106		712
Earnings before income taxes	$	354,168	$	264,037

Table of Contents

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.

A two-for-one split of the Company s voting common stock was approved by the Company s shareholders on January 26, 2016, and effected on January 27, 2016. All shares and per share calculations for the current and prior year throughout the following discussion reflect the impact of this split.

The Company reported net earnings per diluted share of $0.43 for the first quarter of fiscal 2016, compared to $0.32 per diluted share in the first 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.
- The Refrigerated Foods segment provided robust profit gains driven by strong value-added product results and higher pork operating margins.
- Grocery Products segment profit benefitted from favorable raw material costs and improved plant efficiencies.
- Specialty Foods delivered segment profit gains reflecting favorable input costs and supply chain synergies.
- International & Other segment profit increased, but was challenged by softer sales in key markets and unfavorable currency rates.

- Jennie-O Turkey Store profits decreased during the quarter, reflecting the impact of the highly pathogenic avian influenza (HPAI) outbreak in fiscal 2015, causing large volume shortfalls in operations and sales.

Consolidated Results

Net earnings and diluted earnings per share

(in millions, except per share amounts)	Three Months Ended January 24, 2016	Three Months Ended January 25, 2015	% change
Net earnings	$ 235.1	$ 171.7	36.9
Diluted earnings per share	0.43	0.32	34.4
Adjusted(1) net earnings	235.1	187.3	25.5
Adjusted(1) diluted earnings per share	0.43	0.35	22.9

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

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

Table of Contents

First Quarter ended January 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	$ 65,273	$ 51,901	$ (10,526)	$ -	$ 41,375
Refrigerated Foods	166,908	101,152	-	-	101,152
Jennie-O Turkey Store	91,303	93,020	-	-	93,020
Specialty Foods	26,793	18,576	-	-	18,576
International & Other	24,287	23,930	-	(9,546)	14,384
Total segment operating profit	374,564	288,579	(10,526)	(9,546)	268,507
Net interest & investment expense	(5,370)	(1,929)	-	-	(1,929)
General corporate expense	(15,132)	(3,253)	-	-	(3,253)
Earnings before income taxes	354,062	283,397	(10,526)	(9,546)	263,325
Income taxes	(119,001)	(96,062)	3,685	770	(91,607)
Net earnings attributable to Hormel Foods Corporation	$ 235,061	$ 187,335	$ (6,841)	$ (8,776)	$ 171,718
Diluted net earnings per share*	$ 0.43	$ 0.35	$ (0.02)	$ (0.02)	$ 0.32

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

Net sales

	Three Months Ended		
(in millions)	**January 24, 2016**	**January 25, 2015**	**% Change**
Net sales	$ 2,293	$ 2,395	(4.3)
Tonnage (lbs.)	1,269	1,306	(2.8)

Net sales were enhanced by the addition of the Applegate Farms, LLC (Applegate) business contributing an incremental $76.3 million of net sales and 11.8 million lbs. for the quarter in the Refrigerated Foods segment.

Lower pork markets, impacting sales within the Company s Refrigerated Foods and International & Other segments along with turkey supply shortages in the Jennie-O Turkey Store (JOTS) segment were key drivers of the decrease for the first quarter.

Cost of products sold

	Three Months Ended
(in millions)	

	January 24, 2016	January 25, 2015	% Change
Cost of products sold	$ 1,735	$ 1,950	(11.0)

The decrease in cost of products sold for the first quarter of fiscal 2016 is largely due to lower pork input costs for the Refrigerated Foods, Grocery Products, and International & Other segments along with lower grain costs for JOTS and favorable input costs for Specialty Foods. Aiding the comparative results, charges totaling $10.5 million related to the closure of the Stockton, California manufacturing facility were included in the fiscal 2015 first quarter results.

Gross profit

	Three Months Ended		
(in millions)	January 24, 2016	January 25, 2015	% Change
Gross profit	$ 558.0	$ 444.6	25.5
Percentage of net sales	24.3 %	18.6%	

Higher margins from the Grocery Products, Refrigerated Foods, and Specialty Foods segments in the first quarter of fiscal 2016 offset lower results in the JOTS and International & Other segments. Improved value-added sales

Table of Contents

results for Refrigerated Foods enhanced margin gains for the quarter. Along with the lower input costs mentioned above, the Grocery Products and Specialty Foods segments also benefitted from improved operational and supply chain efficiencies. These gains offset overall lower sales in JOTS due to the lingering effects of HPAI and International & Other as the segment faced challenging market conditions.

The Company expects favorable input costs to continue for Refrigerated Foods, Grocery Products, and Specialty Foods. Pork operating margins are expected to moderate as the year progresses. Turkey production at JOTS is on pace to return to normalized levels by the end of the second quarter, positioning JOTS for strong growth in the second half of fiscal 2016 assuming no recurrence of HPAI.

Selling, general and administrative (SG&A)

	Three Months Ended		
(in millions)	January 24, 2016	January 25, 2015	% Change
SG&A	$ 209.9	$ 180.3	16.4
Percentage of net sales	9.2 %	7.5%	

The increase in SG&A for the first quarter of fiscal 2016 largely represents the inclusion of Applegate expenses as well as increased employee-related and advertising expenses.

Equity in earnings of affiliates

	Three Months Ended		
(in millions)	January 24, 2016	January 25, 2015	% Change
Equity in earnings of affiliates	$ 11.5	$ 1.7	576.5

The improved results for the first quarter 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	
(in millions)	January 24, 2016	January 25, 2015
Effective tax rate	33.6%	34.7%

The lower rate for the first quarter of the current year is primarily due to the unfavorable impact of the exit from international joint venture businesses impacting the first quarter of fiscal 2015. The Company expects a full-year effective tax rate between 33.5 and 34.0 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.

	Three Months Ended		
(in thousands)	January 24, 2016	January 25, 2015	% Change
Net Sales			
Grocery Products	$ 392,218	$ 409,751	(4.3)
Refrigerated Foods	1,162,121	1,144,215	1.6
Jennie-O Turkey Store	372,066	440,019	(15.4)
Specialty Foods	237,779	263,274	(9.7)
International & Other	128,488	137,814	(6.8)
Total	$ 2,292,672	$ 2,395,073	(4.3)
Segment Operating Profit			
Grocery Products	$ 65,273	$ 41,375	57.8
Refrigerated Foods	166,908	101,152	65.0
Jennie-O Turkey Store	91,303	93,020	(1.8)
Specialty Foods	26,793	18,576	44.2
International & Other	24,287	14,384	68.8
Total segment operating profit	$ 374,564	$ 268,507	39.5
Net interest and investment expense (income)	5,370	1,929	178.4
General corporate expense	15,132	3,253	365.2
Noncontrolling interest	106	712	(85.1)
Earnings before income taxes	$ 354,168	$ 264,037	34.1

Grocery Products

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

(in thousands)	2016	2015	% change
Net sales	$ 392,218	$ 409,751	(4.3)
Tonnage (lbs.)	218,265	230,927	(5.5)
Segment profit	$ 65,273	$ 41,375	