

HORMEL FOODS CORP /DE/  
Form 10-Q  
June 07, 2013  
[Table of Contents](#)

**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 28, 2013**

**or**

**o 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)

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**Delaware**

**41-0319970**

(State or other jurisdiction of incorporation or organization)

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

**1 Hormel Place**

**Austin, Minnesota**

**55912-3680**

(Address of principal executive offices)

(Zip Code)

**(507) 437-5611**

(Registrant's telephone number, including area code)

**None**

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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

|              | <b>Class</b>      | <b>Outstanding at June 2, 2013</b> |
|--------------|-------------------|------------------------------------|
| Common Stock | \$.0293 par value | 264,841,438                        |

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Common Stock Non-Voting

\$.01 par value

-0-

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Table of Contents

**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION April 28, 2013 and October 28, 2012

CONSOLIDATED STATEMENTS OF OPERATIONS Three and Six Months Ended April 28, 2013 and April 29, 2012

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME Three and Six Months Ended April 28, 2013 and April 29, 2012

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' INVESTMENT Twelve Months Ended October 28, 2012 and Six Months Ended April 28, 2013

CONSOLIDATED STATEMENTS OF CASH FLOWS Six Months Ended April 28, 2013 and April 29, 2012

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Item 2.**

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

CRITICAL ACCOUNTING POLICIES

RESULTS OF OPERATIONS

Overview

Consolidated Results

Segment Results

Related Party Transactions

LIQUIDITY AND CAPITAL RESOURCES

FORWARD-LOOKING STATEMENTS

**Item 3.**

**Quantitative and Qualitative Disclosures About Market Risk**

**Item 4.**

**Controls and Procedures**

**PART II - OTHER INFORMATION**

**Item 1.**

**Legal Proceedings**

**Item 1A.**

**Risk Factors**

**Item 2.**

**Unregistered Sales of Equity Securities and Use of Proceeds**

**Item 6.**

**Exhibits**

**SIGNATURES**

[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)

|                                                       | April 28,<br>2013<br>(Unaudited) | October 28,<br>2012 |
|-------------------------------------------------------|----------------------------------|---------------------|
| <b>ASSETS</b>                                         |                                  |                     |
| <b>CURRENT ASSETS</b>                                 |                                  |                     |
| Cash and cash equivalents                             | \$ 262,748                       | \$ 682,388          |
| Short-term marketable securities                      |                                  | 77,387              |
| Accounts receivable                                   | 462,239                          | 507,041             |
| Inventories                                           | 998,931                          | 950,521             |
| Income taxes receivable                               | 17,181                           | 16,460              |
| Deferred income taxes                                 | 71,284                           | 68,560              |
| Prepaid expenses                                      | 12,037                           | 12,772              |
| Other current assets                                  | 7,920                            | 5,555               |
| <b>TOTAL CURRENT ASSETS</b>                           | <b>1,832,340</b>                 | <b>2,320,684</b>    |
| <b>DEFERRED INCOME TAXES</b>                          | <b>137,618</b>                   | <b>144,245</b>      |
| <b>GOODWILL</b>                                       | <b>932,114</b>                   | <b>630,875</b>      |
| <b>OTHER INTANGIBLES</b>                              | <b>382,816</b>                   | <b>123,072</b>      |
| <b>PENSION ASSETS</b>                                 | <b>49</b>                        | <b>49</b>           |
| <b>INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES</b> | <b>284,043</b>                   | <b>286,537</b>      |
| <b>OTHER ASSETS</b>                                   | <b>140,902</b>                   | <b>134,024</b>      |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                  |                                  |                     |
| Land                                                  | 57,611                           | 56,258              |
| Buildings                                             | 780,877                          | 767,876             |
| Equipment                                             | 1,501,230                        | 1,435,630           |
| Construction in progress                              | 83,331                           | 82,254              |
|                                                       | 2,423,049                        | 2,342,018           |
| Less allowance for depreciation                       | (1,465,290)                      | (1,417,538)         |
|                                                       | 957,759                          | 924,480             |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 4,667,641</b>              | <b>\$ 4,563,966</b> |



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

(in thousands, except share and per share amounts)

**LIABILITIES AND SHAREHOLDERS INVESTMENT****CURRENT LIABILITIES**

|                                  |    |                |    |                |
|----------------------------------|----|----------------|----|----------------|
| Accounts payable                 | \$ | 315,040        | \$ | 385,877        |
| Accrued expenses                 |    | 42,871         |    | 49,792         |
| Accrued workers compensation     |    | 35,991         |    | 33,543         |
| Accrued marketing expenses       |    | 99,535         |    | 78,712         |
| Employee related expenses        |    | 161,975        |    | 193,463        |
| Taxes payable                    |    | 6,881          |    | 4,864          |
| Interest and dividends payable   |    | 45,601         |    | 40,049         |
| <b>TOTAL CURRENT LIABILITIES</b> |    | <b>707,894</b> |    | <b>786,300</b> |

|                                             |  |                |  |                |
|---------------------------------------------|--|----------------|--|----------------|
| <b>PENSION AND POST-RETIREMENT BENEFITS</b> |  | <b>612,451</b> |  | <b>615,428</b> |
|---------------------------------------------|--|----------------|--|----------------|

|                                               |  |                |  |                |
|-----------------------------------------------|--|----------------|--|----------------|
| <b>LONG-TERM DEBT less current maturities</b> |  | <b>250,000</b> |  | <b>250,000</b> |
|-----------------------------------------------|--|----------------|--|----------------|

|                                    |  |               |  |               |
|------------------------------------|--|---------------|--|---------------|
| <b>OTHER LONG-TERM LIABILITIES</b> |  | <b>79,464</b> |  | <b>87,313</b> |
|------------------------------------|--|---------------|--|---------------|

**SHAREHOLDERS INVESTMENT**

|                                                                                                                    |           |                  |           |                  |
|--------------------------------------------------------------------------------------------------------------------|-----------|------------------|-----------|------------------|
| Preferred stock, par value \$.01 a share authorized 160,000,000 shares; issued none                                |           |                  |           |                  |
| Common stock, non-voting, par value \$.01 a share authorized 400,000,000 shares; issued none                       |           |                  |           |                  |
| Common stock, par value \$.0293 a share authorized 800,000,000 shares;<br>issued 264,944,979 shares April 28, 2013 |           |                  |           |                  |
| issued 263,044,280 shares October 28, 2012                                                                         |           | 7,763            |           | 7,707            |
| Additional paid-in capital                                                                                         |           | 26,671           |           |                  |
| Accumulated other comprehensive loss                                                                               |           | (325,172)        |           | (323,569)        |
| Retained earnings                                                                                                  |           | 3,300,597        |           | 3,135,317        |
| <b>HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT</b>                                                            |           | <b>3,009,859</b> |           | <b>2,819,455</b> |
| <b>NONCONTROLLING INTEREST</b>                                                                                     |           | <b>7,973</b>     |           | <b>5,470</b>     |
| <b>TOTAL SHAREHOLDERS INVESTMENT</b>                                                                               |           | <b>3,017,832</b> |           | <b>2,824,925</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT</b>                                                               | <b>\$</b> | <b>4,667,641</b> | <b>\$</b> | <b>4,563,966</b> |

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 |                   | Six Months Ended  |                   |
|------------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                            | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| Net sales                                                  | \$ 2,152,686       | \$ 2,012,859      | \$ 4,268,927      | \$ 4,052,298      |
| Cost of products sold                                      | 1,799,885          | 1,677,252         | 3,571,933         | 3,379,282         |
| GROSS PROFIT                                               | 352,801            | 335,607           | 696,994           | 673,016           |
| Selling, general and administrative                        | 173,066            | 148,684           | 328,897           | 301,161           |
| Equity in earnings of affiliates                           | 7,194              | 7,816             | 17,037            | 18,817            |
| OPERATING INCOME                                           | 186,929            | 194,739           | 385,134           | 390,672           |
| Other income and expense:                                  |                    |                   |                   |                   |
| Interest and investment income                             | 1,116              | 2,338             | 2,926             | 3,928             |
| Interest expense                                           | (3,142)            | (3,283)           | (6,236)           | (6,497)           |
| EARNINGS BEFORE INCOME TAXES                               | 184,903            | 193,794           | 381,824           | 388,103           |
| Provision for income taxes                                 | 58,262             | 64,859            | 124,138           | 129,835           |
| NET EARNINGS                                               | 126,641            | 128,935           | 257,686           | 258,268           |
| Less: Net earnings attributable to noncontrolling interest | 1,121              | 1,048             | 2,450             | 1,986             |
| NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION      | \$ 125,520         | \$ 127,887        | \$ 255,236        | \$ 256,282        |
| NET EARNINGS PER SHARE:                                    |                    |                   |                   |                   |
| BASIC                                                      | \$ 0.47            | \$ 0.49           | \$ 0.97           | \$ 0.97           |
| DILUTED                                                    | \$ 0.46            | \$ 0.48           | \$ 0.95           | \$ 0.95           |
| WEIGHTED-AVERAGE SHARES OUTSTANDING:                       |                    |                   |                   |                   |
| BASIC                                                      | 264,868            | 263,610           | 264,406           | 263,778           |
| DILUTED                                                    | 270,780            | 269,061           | 269,960           | 269,334           |
| DIVIDENDS DECLARED PER SHARE:                              | \$ 0.17            | \$ 0.15           | \$ 0.34           | \$ 0.30           |

See Notes to Consolidated Financial Statements



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

|                                                                    | <b>Three Months Ended</b> |                           | <b>Six Months Ended</b>   |                           |
|--------------------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                                                    | <b>April 28,<br/>2013</b> | <b>April 29,<br/>2012</b> | <b>April 28,<br/>2013</b> | <b>April 29,<br/>2012</b> |
| NET EARNINGS                                                       | \$ 126,641                | \$ 128,935                | \$ 257,686                | \$ 258,268                |
| Other comprehensive income (loss), net of tax:                     |                           |                           |                           |                           |
| Foreign currency translation                                       | 413                       | 531                       | 797                       | 1,124                     |
| Pension and other benefits                                         | 5,482                     | 2,688                     | 11,036                    | 3,569                     |
| Deferred hedging                                                   | (6,571)                   | (5,382)                   | (13,383)                  | (16,673)                  |
| TOTAL OTHER COMPREHENSIVE LOSS                                     | (676)                     | (2,163)                   | (1,550)                   | (11,980)                  |
| COMPREHENSIVE INCOME                                               | 125,965                   | 126,772                   | 256,136                   | 246,288                   |
| Less: Comprehensive income attributable to noncontrolling interest | 1,159                     | 1,078                     | 2,503                     | 2,052                     |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION      | \$ 124,806                | \$ 125,694                | \$ 253,633                | \$ 244,236                |

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)

|                                            | <b>Hormel Foods Corporation Shareholders</b> |                           |                                           |                              | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Non-<br/>controlling<br/>Interest</b> | <b>Total<br/>Shareholders<br/>Investment</b> |
|--------------------------------------------|----------------------------------------------|---------------------------|-------------------------------------------|------------------------------|------------------------------------------------------------------|------------------------------------------|----------------------------------------------|
|                                            | <b>Common<br/>Stock</b>                      | <b>Treasury<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> |                                                                  |                                          |                                              |
| Balance at October 30, 2011                | \$ 7,734                                     | \$                        | \$                                        | \$ 2,824,331                 | \$ (175,483)                                                     | \$ 3,234                                 | \$ 2,659,816                                 |
| Net earnings                               |                                              |                           |                                           | 500,050                      |                                                                  | 4,911                                    | 504,961                                      |
| Other comprehensive (loss) income          |                                              |                           |                                           |                              | (148,086)                                                        | 51                                       | (148,035)                                    |
| Purchases of common stock                  |                                              | (61,366)                  |                                           |                              |                                                                  |                                          | (61,366)                                     |
| Stock-based compensation expense           |                                              |                           | 16,710                                    |                              |                                                                  |                                          | 16,710                                       |
| Exercise of stock options/nonvested shares | 36                                           | (295)                     | 13,576                                    |                              |                                                                  |                                          | 13,317                                       |
| Shares retired                             | (63)                                         | 61,661                    | (30,286)                                  | (31,312)                     |                                                                  |                                          |                                              |
| Proceeds from noncontrolling interest      |                                              |                           |                                           |                              |                                                                  | 774                                      | 774                                          |
| Distribution to noncontrolling interest    |                                              |                           |                                           |                              |                                                                  | (3,500)                                  | (3,500)                                      |
| Declared cash dividends \$ .60 per share   |                                              |                           |                                           | (157,752)                    |                                                                  |                                          | (157,752)                                    |
| Balance at October 28, 2012                | \$ 7,707                                     | \$                        | \$                                        | \$ 3,135,317                 | \$ (323,569)                                                     | \$ 5,470                                 | \$ 2,824,925                                 |
| Net earnings                               |                                              |                           |                                           | 255,236                      |                                                                  | 2,450                                    | 257,686                                      |
| Other comprehensive (loss) income          |                                              |                           |                                           |                              | (1,603)                                                          | 53                                       | (1,550)                                      |
| Purchases of common stock                  |                                              | (7,928)                   |                                           |                              |                                                                  |                                          | (7,928)                                      |
| Stock-based compensation expense           |                                              |                           | 11,906                                    |                              |                                                                  |                                          | 11,906                                       |
| Exercise of stock options/nonvested shares | 62                                           |                           | 22,687                                    |                              |                                                                  |                                          | 22,749                                       |
| Shares retired                             | (6)                                          | 7,928                     | (7,922)                                   |                              |                                                                  |                                          |                                              |
| Declared cash dividends \$ .34 per share   |                                              |                           |                                           | (89,956)                     |                                                                  |                                          | (89,956)                                     |
| Balance at April 28, 2013                  | \$ 7,763                                     | \$                        | \$ 26,671                                 | \$ 3,300,597                 | \$ (325,172)                                                     | \$ 7,973                                 | \$ 3,017,832                                 |

See Notes to Consolidated Financial Statements

Table of Contents

**HORMEL FOODS CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(Unaudited)

|                                                                            | Six Months Ended  |                   |
|----------------------------------------------------------------------------|-------------------|-------------------|
|                                                                            | April 28, 2013    | April 29, 2012    |
| <b>OPERATING ACTIVITIES</b>                                                |                   |                   |
| Net earnings                                                               | \$ 257,686        | \$ 258,268        |
| Adjustments to reconcile to net cash provided by operating activities:     |                   |                   |
| Depreciation                                                               | 56,405            | 55,254            |
| Amortization of intangibles                                                | 4,756             | 4,453             |
| Equity in earnings of affiliates, net of dividends                         | 2,991             | (7,657)           |
| Provision for deferred income taxes                                        | (266)             | (793)             |
| Gain on property/equipment sales and plant facilities                      | (41)              | (279)             |
| Non-cash investment activities                                             | (1,884)           | (2,309)           |
| Stock-based compensation expense                                           | 11,906            | 11,129            |
| Excess tax benefit from stock-based compensation                           | (18,138)          | (4,634)           |
| Changes in operating assets and liabilities, net of acquisitions:          |                   |                   |
| Decrease in accounts receivable                                            | 44,802            | 21,762            |
| Decrease (increase) in inventories                                         | 816               | (26,849)          |
| Decrease (increase) in prepaid expenses and other current assets           | 19                | (14,782)          |
| Increase in pension and post-retirement benefits                           | 14,769            | 8,569             |
| Decrease in accounts payable and accrued expenses                          | (116,263)         | (89,101)          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                           | <b>257,558</b>    | <b>213,031</b>    |
| <b>INVESTING ACTIVITIES</b>                                                |                   |                   |
| Sale of trading securities                                                 | 77,558            |                   |
| Acquisitions of businesses/intangibles                                     | (663,128)         | (168)             |
| Purchases of property/equipment                                            | (45,494)          | (58,217)          |
| Proceeds from sales of property/equipment                                  | 4,311             | 1,803             |
| (Increase) decrease in investments, equity in affiliates, and other assets | (5,016)           | 4,746             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                               | <b>(631,769)</b>  | <b>(51,836)</b>   |
| <b>FINANCING ACTIVITIES</b>                                                |                   |                   |
| Proceeds from short-term debt                                              | 25,000            |                   |
| Principal payments on short-term debt                                      | (25,000)          |                   |
| Dividends paid on common stock                                             | (84,405)          | (73,186)          |
| Share repurchase                                                           | (7,928)           | (42,088)          |
| Proceeds from exercise of stock options                                    | 28,615            | 10,028            |
| Excess tax benefit from stock-based compensation                           | 18,138            | 4,634             |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                               | <b>(45,580)</b>   | <b>(100,612)</b>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                             | <b>151</b>        | <b>1,066</b>      |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                    | <b>(419,640)</b>  | <b>61,649</b>     |
| Cash and cash equivalents at beginning of year                             | 682,388           | 463,130           |
| <b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>                         | <b>\$ 262,748</b> | <b>\$ 524,779</b> |

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 28, 2012, 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 28, 2012.

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. The reclassifications had no impact on net earnings as previously reported.

**Investments**

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company's earnings. Securities held by the trust generated gains of \$1.3 million and \$2.8 million for the second quarter and six months ended April 28, 2013, respectively, compared to gains of \$1.4 million and \$2.7 million for the second quarter and six months ended April 29, 2012. The majority of this portfolio is held in fixed return investments to reduce the exposure to volatility in equity markets.

During fiscal 2012 and 2013, the Company also held securities as part of an investment portfolio, which are classified as short-term marketable securities on the Consolidated Statements of Financial Position. These investments are also trading securities. Therefore, unrealized gains and losses are included in the Company's earnings. The Company recorded a gain of \$0.2 million related to these investments during the first quarter of fiscal 2013, compared to gains of \$0.4 million and \$0.7 million for the second quarter and six months ended April 29, 2012. These securities were liquidated in the first quarter of fiscal 2013.

### **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 and other investments, amortization of affordable housing investments, and amortization of bond financing costs. The noted investments are included in other assets or short-term marketable securities on the Consolidated Statements of Financial Position. Changes in the value of these investments are included in the Company's net earnings and are presented in the Consolidated Statements of Operations as either interest and investment income or interest expense, as appropriate.

### **Guarantees**

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company's guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides a revocable standby letter of credit for \$5.6 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.

Table of Contents

**New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) updated the guidance within Accounting Standards Codification (ASC) 220, *Comprehensive Income*. The update eliminates the option for companies to report other comprehensive income and its related components in the Statement of Changes in Stockholders' Equity. Instead, companies have the option to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous Statement of Comprehensive Income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively, and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company early adopted the provisions of this accounting standard during the fourth quarter of fiscal 2012, and adoption did not have a material impact on the consolidated financial statements, as it relates to presentation only.

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

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

**NOTE B      ACQUISITIONS**

On January 31, 2013, the Company acquired the United States based *SKIPPY* peanut butter business from Conopco, Inc. (doing business as Unilever United States Inc.), of Englewood Cliffs, N.J. for a preliminary purchase price of \$663.1 million in cash. This acquisition includes the Little Rock, Arkansas manufacturing facility and all sales worldwide, except sales in China. The Company expects to close the acquisition of the China based *SKIPPY* peanut butter business by the end of fiscal year 2013 for an additional investment of approximately \$42.0 million, subject to regulatory approvals and working capital adjustments. The purchase price was funded by the Company with cash on hand generated from operations and liquidating marketable securities.

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

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

Table of Contents**At January 31, 2013 (in thousands)**

|                               |    |         |
|-------------------------------|----|---------|
| Inventory                     | \$ | 49,227  |
| Property, plant and equipment |    | 48,461  |
| Intangible assets             |    | 264,500 |
| Goodwill                      |    | 301,239 |
| Current liabilities           |    | (299)   |
| Purchase price                | \$ | 663,128 |

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of the assembled workforce, cost synergies, and the potential to integrate and expand existing product lines. The goodwill balance is expected to be deductible for income tax purposes. The goodwill and intangible assets have been allocated to the Grocery Products and International & Other reporting segments.

The Company recognized \$7.5 million of transaction costs (excluding transitional service expenses) related to the acquisition through the second quarter, and the charges were reported in selling, general and administrative expense in the Consolidated Statement of Operations.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition (i.e. beginning in the second quarter) and are reflected in the Grocery Products and International & Other reporting segments. The acquisition contributed \$87.0 million of net sales and had an immaterial impact on segment profit for the second quarter. Pro forma results are not presented, as the acquisition was not considered material to the consolidated Company.

**NOTE C STOCK-BASED COMPENSATION**

The Company issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. The Company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Options typically vest over periods ranging from six months to 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 28, 2013, and changes during the six months then ended, is as follows:

|                                 | Shares | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value<br>(in thousands) |
|---------------------------------|--------|------------------------------------|------------------------------------------------------|------------------------------------------------|
| Outstanding at October 28, 2012 | 20,454 | \$ 19.67                           |                                                      |                                                |
| Granted                         | 2,217  | 32.18                              |                                                      |                                                |
| Exercised                       | 3,629  | 15.57                              |                                                      |                                                |
| Forfeited                       | 21     | 27.77                              |                                                      |                                                |

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|                               |        |    |       |           |    |         |
|-------------------------------|--------|----|-------|-----------|----|---------|
| Outstanding at April 28, 2013 | 19,021 | \$ | 21.90 | 5.9 years | \$ | 347,329 |
| Exercisable at April 28, 2013 | 13,002 | \$ | 18.88 | 4.7 years | \$ | 209,268 |

Table of Contents

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 2013 and 2012 are as follows:

|                                                           | Three Months Ended |                   | Six Months Ended  |                   |
|-----------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                           | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| Weighted-average grant date fair value of options granted | \$ 6.57            | \$ 5.37           | \$ 5.50           | \$ 5.64           |
| Intrinsic value of exercised options                      | \$ 16,133          | \$ 9,492          | \$ 62,653         | \$ 15,321         |

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 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| Risk-Free Interest Rate | 1.7%               | 1.6%              | 1.4%              | 1.8%              |
| Dividend Yield          | 1.9%               | 2.1%              | 2.1%              | 2.0%              |
| Stock Price Volatility  | 20.0%              | 21.0%             | 20.0%             | 21.0%             |
| 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 on or before September 26, 2010, vest after five years or upon retirement. Nonvested shares granted after September 26, 2010, vest after one year. A reconciliation of the nonvested shares (in thousands) as of April 28, 2013, and changes during the six months then ended, is as follows:

|                               | Shares | Weighted-Average Grant-Date Fair Value |
|-------------------------------|--------|----------------------------------------|
| Nonvested at October 28, 2012 | 139    | \$ 21.47                               |
| Granted                       | 45     | 35.42                                  |
| Vested                        | 70     | 24.93                                  |
| Nonvested at April 28, 2013   | 114    | \$ 24.86                               |

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 2013 and 2012 are as follows:

|                                        | Six Months Ended  |       |                   |       |
|----------------------------------------|-------------------|-------|-------------------|-------|
|                                        | April 28,<br>2013 |       | April 29,<br>2012 |       |
| Weighted-average grant date fair value | \$                | 35.42 | \$                | 28.97 |
| Fair value of nonvested shares granted | \$                | 1,600 | \$                | 1,304 |
| Fair value of shares vested            | \$                | 1,758 | \$                | 2,324 |

Table of Contents

Stock-based compensation expense, along with the related income tax benefit, for the second quarter and first six months of fiscal years 2013 and 2012 is presented in the table below.

| (in thousands)                              | Three Months Ended |                   | Six Months Ended  |                   |
|---------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                             | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| Stock-based compensation expense recognized | \$ 6,330           | \$ 4,889          | \$ 11,906         | \$ 11,129         |
| Less: Income tax benefit recognized         | (2,393)            | (1,854)           | (4,502)           | (4,220)           |
| After-tax stock-based compensation expense  | \$ 3,937           | \$ 3,035          | \$ 7,404          | \$ 6,909          |

At April 28, 2013, there was \$13.1 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 4.8 years. During the second quarter and six months ended April 28, 2013, cash received from stock option exercises was \$5.4 million and \$28.6 million, respectively, compared to \$6.1 million and \$10.0 million for the second quarter and six months ended April 29, 2012. The total tax benefit to be realized for tax deductions from these option exercises for the second quarter and six months ended April 28, 2013, was \$6.1 million and \$23.7 million, respectively, compared to \$3.6 million and \$5.8 million in the comparable periods in fiscal 2012.

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

**NOTE D GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the six months ended April 28, 2013, are presented in the table below. There were no changes to the carrying amount of goodwill in the first quarter of fiscal 2013. The additions during the second quarter are entirely due to the acquisition of the United States based *SKIPPY* peanut butter business on January 31, 2013. The goodwill amounts are preliminary pending final working capital adjustments.

| (in thousands)                 | Grocery<br>Products | Refrigerated<br>Foods | JOTS       | Specialty<br>Foods | International<br>& Other | Total      |
|--------------------------------|---------------------|-----------------------|------------|--------------------|--------------------------|------------|
| Balance as of October 28, 2012 | \$ 123,316          | \$ 96,643             | \$ 203,214 | \$ 207,028         | \$ 674                   | \$ 630,875 |
| Goodwill acquired              | 197,339             |                       |            |                    | 103,900                  | 301,239    |
| Balance as of April 28, 2013   | \$ 320,655          | \$ 96,643             | \$ 203,214 | \$ 207,028         | \$ 104,574               | \$ 932,114 |

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below. Customer relationships of \$25.1 million were acquired during the second quarter of fiscal 2013 related to the United States based *SKIPPY* peanut butter business.

| (in thousands) | April 28, 2013           |                             | October 28, 2012         |                             |
|----------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                | Gross Carrying<br>Amount | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |

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|                                   |    |        |    |          |    |        |    |          |
|-----------------------------------|----|--------|----|----------|----|--------|----|----------|
| Customer lists/relationships      | \$ | 47,130 | \$ | (16,309) | \$ | 22,148 | \$ | (14,684) |
| Proprietary software & technology |    | 20,940 |    | (17,385) |    | 22,000 |    | (17,319) |
| Formulas & recipes                |    | 17,854 |    | (12,755) |    | 17,854 |    | (11,686) |
| Other intangibles                 |    | 9,786  |    | (7,704)  |    | 13,586 |    | (10,686) |
| Total                             | \$ | 95,710 | \$ | (54,153) | \$ | 75,588 | \$ | (54,375) |

Table of Contents

Amortization expense was \$2.6 million and \$4.8 million for the second quarter and six months ended April 28, 2013, respectively, compared to \$2.1 million and \$4.5 million for the second quarter and six months ended April 29, 2012.

Estimated annual amortization expense (in thousands) for the five fiscal years after October 28, 2012, is as follows:

| <b>Fiscal Year</b> | <b>Estimated<br/>Amortization<br/>Expense</b> |
|--------------------|-----------------------------------------------|
| 2013               | \$ 9,479                                      |
| 2014               | 8,654                                         |
| 2015               | 5,474                                         |
| 2016               | 3,348                                         |
| 2017               | 2,918                                         |

The carrying amounts for indefinite-lived intangible assets are presented in the table below. The increase in the second quarter of fiscal 2013 represents the fair value of the trade name and trademarks acquired with the United States based *SKIPPY* peanut butter business.

| <b>(in thousands)</b>         | <b>April 28, 2013</b> | <b>October 28, 2012</b> |
|-------------------------------|-----------------------|-------------------------|
| Brands/trade names/trademarks | \$ 333,275            | \$ 93,875               |
| Other intangibles             | 7,984                 | 7,984                   |
| <b>Total</b>                  | <b>\$ 341,259</b>     | <b>\$ 101,859</b>       |

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

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

Investments in and receivables from affiliates consists of the following:

| <b>(in thousands)</b>  | <b>Segment</b>        | <b>% Owned</b>   | <b>April 28,<br/>2013</b> | <b>October 28,<br/>2012</b> |
|------------------------|-----------------------|------------------|---------------------------|-----------------------------|
| MegaMex Foods, LLC     | Grocery Products      | 50%              | \$ 199,809                | \$ 205,315                  |
| Foreign Joint Ventures | International & Other | Various (26-50%) | 84,234                    | 81,222                      |
| <b>Total</b>           |                       |                  | <b>\$ 284,043</b>         | <b>\$ 286,537</b>           |

Equity in earnings of affiliates consists of the following:

| (in thousands)         | Segment               | Three Months Ended |                   | Six Months Ended  |                   |
|------------------------|-----------------------|--------------------|-------------------|-------------------|-------------------|
|                        |                       | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| MegaMex Foods, LLC     | Grocery Products      | \$ 7,607           | \$ 7,501          | \$ 14,644         | \$ 16,125         |
| Foreign Joint Ventures | International & Other | (413)              | 315               | 2,393             | 2,692             |
| Total                  |                       | \$ 7,194           | \$ 7,816          | \$ 17,037         | \$ 18,817         |

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

Table of Contents**NOTE F EARNINGS PER SHARE DATA**

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

| <u>(in thousands)</u>                       | Three Months Ended |                   | Six Months Ended  |                   |
|---------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                             | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| Basic weighted-average shares outstanding   | 264,868            | 263,610           | 264,406           | 263,778           |
| Dilutive potential common shares            | 5,912              | 5,451             | 5,554             | 5,556             |
| Diluted weighted-average shares outstanding | 270,780            | 269,061           | 269,960           | 269,334           |

For the second quarter and six months ended April 28, 2013, 0.6 million and 0.8 million weighted-average stock options, respectively, were not included in the computation of dilutive potential common shares since their inclusion would have had an antidilutive effect on earnings per share, compared to 2.6 million and 1.9 million for the second quarter and six months ended April 29, 2012.

**NOTE G ACCUMULATED OTHER COMPREHENSIVE LOSS**

The components of accumulated other comprehensive loss, net of tax, are as follows:

| <u>(in thousands)</u>                | April 28,<br>2013 | October 28,<br>2012 |
|--------------------------------------|-------------------|---------------------|
| Foreign currency translation         | \$ 13,159         | \$ 12,415           |
| Pension & other benefits             | (334,429)         | (345,465)           |
| Deferred (loss) gain on hedging      | (3,902)           | 9,481               |
| Accumulated other comprehensive loss | \$ (325,172)      | \$ (323,569)        |

**NOTE H INVENTORIES**

Principal components of inventories are:

| <u>(in thousands)</u>             | April 28,<br>2013 | October 28,<br>2012 |
|-----------------------------------|-------------------|---------------------|
| Finished products                 | \$ 560,843        | \$ 494,298          |
| Raw materials and work-in-process | 255,021           | 267,877             |

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|                        |    |         |    |         |
|------------------------|----|---------|----|---------|
| Materials and supplies |    | 183,067 |    | 188,346 |
| Total                  | \$ | 998,931 | \$ | 950,521 |

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

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

**Cash Flow Hedges:** The Company currently utilizes corn futures to offset the price fluctuation in the Company's future direct grain purchases, and has historically entered into various swaps to hedge the purchases of grain and natural gas at certain plant locations. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges on a regular basis. Effective gains or losses related to these cash flow hedges are reported in accumulated other

Table of Contents

comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain or natural gas exposure beyond the next two upcoming fiscal years. As of April 28, 2013, and October 28, 2012, the Company had the following outstanding commodity futures contracts and swaps that were entered into to hedge forecasted purchases:

| Commodity | April 28, 2013       | Volume | October 28, 2012     |
|-----------|----------------------|--------|----------------------|
| Corn      | 15.9 million bushels |        | 12.0 million bushels |

As of April 28, 2013, the Company has included in AOCL, hedging losses of \$6.2 million (before tax) relating to these positions, compared to gains of \$15.2 million (before tax) as of October 28, 2012. 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 on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated 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 28, 2013, and October 28, 2012, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

| Commodity | April 28, 2013      | Volume | October 28, 2012    |
|-----------|---------------------|--------|---------------------|
| Corn      | 9.5 million bushels |        | 8.0 million bushels |
| Lean hogs | 0.7 million cwt     |        | 0.9 million cwt     |

**Other Derivatives:** During fiscal years 2013 and 2012, the Company has held certain futures to manage the Company's exposure to fluctuations in commodity markets. The Company has not applied hedge accounting to these positions. As of April 28, 2013, and October 28, 2012, the Company had the following outstanding futures contracts related to other programs:

| Commodity    | April 28, 2013 | Volume | October 28, 2012 |
|--------------|----------------|--------|------------------|
| Soybean meal | 6,700 tons     |        |                  |

# Table of Contents

**Fair Values:** The fair values of the Company's derivative instruments (in thousands) as of April 28, 2013, and October 28, 2012, were as follows:

|                                              | Location on Consolidated Statements of Financial Position | April 28, 2013 | Fair Value (1) | October 28, 2012 |
|----------------------------------------------|-----------------------------------------------------------|----------------|----------------|------------------|
| <b>Asset Derivatives:</b>                    |                                                           |                |                |                  |
| <b>Derivatives Designated as Hedges:</b>     |                                                           |                |                |                  |
| Commodity contracts                          | Other current assets                                      | \$ (7,909)     | \$             | 7,483            |
| <b>Derivatives Not Designated as Hedges:</b> |                                                           |                |                |                  |
| Commodity contracts                          | Other current assets                                      | (739)          |                |                  |
| <b>Total Asset Derivatives</b>               |                                                           | \$ (8,648)     | \$             | 7,483            |

(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 Statement of Financial Position. See Note J - Fair Value Measurements for a discussion of these net amounts as reported in the Consolidated Statements of Financial Position.

**Derivative Gains and Losses:** Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the second quarter ended April 28, 2013, and April 29, 2012, were as follows:

|                                              | Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (AOCL) (Effective Portion) (1) Three Months Ended | Location on Consolidated Statements of Operations | Gain/(Loss) Recognized in Earnings (Effective Portion) (1) Three Months Ended | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (3) Three Months Ended |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|                                              | April 28, 2013                                                                                                   | April 29, 2012                                    | April 28, 2013                                                                | April 29, 2012                                                                      |
| <b>Cash Flow Hedges:</b>                     |                                                                                                                  |                                                   |                                                                               |                                                                                     |
| Commodity contracts                          | \$ (8,378)                                                                                                       | \$ (4,843)                                        | Cost of products sold \$ 2,156                                                | \$ 3,751 \$ (392) \$                                                                |
| <b>Fair Value Hedges:</b>                    |                                                                                                                  |                                                   |                                                                               |                                                                                     |
|                                              |                                                                                                                  |                                                   | Gain/(Loss) Recognized in Earnings (Effective Portion) (4) Three Months Ended | Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5) Three Months Ended |
|                                              |                                                                                                                  |                                                   | April 28, 2013                                                                | April 29, 2012                                                                      |
| Commodity contracts                          |                                                                                                                  | Cost of products sold                             | \$ 3,628                                                                      | \$ 2,695 \$ 85 \$ 135                                                               |
| <b>Derivatives Not Designated as Hedges:</b> |                                                                                                                  |                                                   |                                                                               |                                                                                     |
|                                              |                                                                                                                  | Location on Consolidated Statements of Operations | Gain/(Loss) Recognized in Earnings Three Months Ended                         |                                                                                     |
|                                              |                                                                                                                  |                                                   | April 28, 2013                                                                | April 29, 2012                                                                      |

|                     |                       |    |     |    |    |
|---------------------|-----------------------|----|-----|----|----|
| Commodity contracts | Cost of products sold | \$ | 351 | \$ | 86 |
|---------------------|-----------------------|----|-----|----|----|

Table of Contents

**Derivative Gains and Losses:** Gains or losses (before tax, in thousands) related to the Company's derivative instruments for the six months ended April 28, 2013, and April 29, 2012, were as follows:

|                                          | Gain/(Loss)<br>Recognized in<br>Accumulated Other<br>Comprehensive<br>Loss (AOCL)<br>(Effective Portion) (1)<br>Six Months Ended |                   | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Reclassified from<br>AOCL into Earnings<br>(Effective Portion) (1)<br>Six Months Ended |                   | Gain/(Loss)<br>Recognized in<br>Earnings (Ineffective<br>Portion) (2) (3)<br>Six Months Ended |                   |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------|-------------------|
|                                          | April 28,<br>2013                                                                                                                | April 29,<br>2012 |                                                            | April 28,<br>2013                                                                                     | April 29,<br>2012 | April 28,<br>2013                                                                             | April 29,<br>2012 |
| Cash Flow Hedges:                        |                                                                                                                                  |                   |                                                            |                                                                                                       |                   |                                                                                               |                   |
| Commodity contracts                      | \$ (12,469)                                                                                                                      | \$ (12,085)       | Cost of products sold                                      | \$ 8,986                                                                                              | \$ 14,641         | \$ (226)                                                                                      | \$                |
|                                          |                                                                                                                                  |                   |                                                            |                                                                                                       |                   |                                                                                               |                   |
|                                          |                                                                                                                                  |                   | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Recognized in Earnings<br>(Effective Portion) (4)<br>Six Months Ended                  |                   | Gain/(Loss)<br>Recognized in<br>Earnings (Ineffective<br>Portion) (2) (5)<br>Six Months Ended |                   |
|                                          |                                                                                                                                  |                   |                                                            | April 28,<br>2013                                                                                     | April 29,<br>2012 | April 28,<br>2013                                                                             | April 29,<br>2012 |
| Fair Value Hedges:                       |                                                                                                                                  |                   |                                                            |                                                                                                       |                   |                                                                                               |                   |
| Commodity contracts                      |                                                                                                                                  |                   | Cost of products sold                                      | \$ 2,542                                                                                              | \$ 5,349          | \$ 55                                                                                         | \$ 46             |
|                                          |                                                                                                                                  |                   |                                                            |                                                                                                       |                   |                                                                                               |                   |
| Derivatives Not<br>Designated as Hedges: |                                                                                                                                  |                   | Location on<br>Consolidated<br>Statements<br>of Operations | Gain/(Loss)<br>Recognized<br>in Earnings<br>Six Months Ended                                          |                   |                                                                                               |                   |
|                                          |                                                                                                                                  |                   |                                                            | April 28,<br>2013                                                                                     | April 29,<br>2012 |                                                                                               |                   |
| Commodity contracts                      |                                                                                                                                  |                   | Cost of products sold                                      | \$ (733)                                                                                              | \$ 46             |                                                                                               |                   |

- (1) Amounts represent gains or losses in AOCL before tax. See 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 of fiscal years 2013 and 2012.
- (3) There were no gains or losses resulting from the discontinuance of cash flow hedges during the second quarter or first six months of fiscal years 2013 and 2012.
- (4) Amounts represent (losses) gains on commodity contracts designated as fair value hedges that were closed during the second quarter or first six months of fiscal years 2013 and 2012, which were offset by a corresponding gain or 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.
- (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 of fiscal years 2013 and 2012.

**NOTE.J FAIR VALUE MEASUREMENTS**

Pursuant to the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), the Company measures certain assets and liabilities at fair value or discloses the fair value of certain assets and liabilities recorded at cost in the consolidated financial statements. Fair value is calculated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

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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.

Table of Contents

**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 28, 2013, and October 28, 2012, and their level within the fair value hierarchy, are presented in the tables below.

|                                        | Fair Value Measurements at April 28, 2013 |                                                                            |                                                           |                                                    |
|----------------------------------------|-------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        | Fair Value at<br>April 28,<br>2013        | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>(in thousands)</b>                  |                                           |                                                                            |                                                           |                                                    |
| <b>Assets at Fair Value:</b>           |                                           |                                                                            |                                                           |                                                    |
| Cash equivalents (1)                   | \$ 90,336                                 | \$ 90,336                                                                  | \$                                                        | \$                                                 |
| Other trading securities (2)           | 112,432                                   | 37,774                                                                     | 74,658                                                    |                                                    |
| Commodity derivatives (3)              | 4,094                                     | 4,094                                                                      |                                                           |                                                    |
| <b>Total Assets at Fair Value</b>      | <b>\$ 206,862</b>                         | <b>\$ 132,204</b>                                                          | <b>\$ 74,658</b>                                          | <b>\$</b>                                          |
| <b>Liabilities at Fair Value:</b>      |                                           |                                                                            |                                                           |                                                    |
| Deferred compensation (2)              | \$ 48,824                                 | \$ 18,614                                                                  | \$ 30,210                                                 | \$                                                 |
| <b>Total Liabilities at Fair Value</b> | <b>\$ 48,824</b>                          | <b>\$ 18,614</b>                                                           | <b>\$ 30,210</b>                                          | <b>\$</b>                                          |

|                                        | Fair Value Measurements at October 28, 2012 |                                                                            |                                                           |                                                    |
|----------------------------------------|---------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        | Fair Value at<br>October 28,<br>2012        | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>(in thousands)</b>                  |                                             |                                                                            |                                                           |                                                    |
| <b>Assets at Fair Value:</b>           |                                             |                                                                            |                                                           |                                                    |
| Cash equivalents (1)                   | \$ 483,441                                  | \$ 483,441                                                                 | \$                                                        | \$                                                 |
| Short-term marketable securities (4)   | 77,387                                      | 2,349                                                                      | 75,038                                                    |                                                    |
| Other trading securities (2)           | 109,676                                     | 36,305                                                                     | 73,371                                                    |                                                    |
| Commodity derivatives (3)              | 3,884                                       | 3,884                                                                      |                                                           |                                                    |
| <b>Total Assets at Fair Value</b>      | <b>\$ 674,388</b>                           | <b>\$ 525,979</b>                                                          | <b>\$ 148,409</b>                                         | <b>\$</b>                                          |
| <b>Liabilities at Fair Value:</b>      |                                             |                                                                            |                                                           |                                                    |
| Deferred compensation (2)              | \$ 47,953                                   | \$ 16,866                                                                  | \$ 31,087                                                 | \$                                                 |
| <b>Total Liabilities at Fair Value</b> | <b>\$ 47,953</b>                            | <b>\$ 16,866</b>                                                           | <b>\$ 31,087</b>                                          | <b>\$</b>                                          |

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

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

(2) The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. The rabbi trust is included in other assets on the Consolidated Statements of Financial Position and is valued based on the underlying fair value of each fund held by the trust. A majority of the funds held related to the supplemental executive retirement plans have been invested in fixed income funds managed by a third party. The declared rate on these 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

Table of Contents

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 April 28, 2013, the Company has recognized the right to reclaim cash collateral of \$23.3 million from, and the obligation to return cash collateral of \$10.5 million to, various counterparties. As of October 28, 2012, the Company had recognized the right to reclaim cash collateral of \$27.5 million from, and the obligation to return cash collateral of \$31.1 million to, various counterparties.

(4) During fiscal 2012 and 2013, the Company held trading securities as part of a portfolio maintained to generate investment income and to provide cash for operations of the Company, if necessary. The portfolio is managed by a third party who is responsible for daily trading activities, and all assets within the portfolio are highly liquid. The cash, U.S. government securities, and highly rated money market funds held by the portfolio are classified as Level 1. The investment portfolio also included corporate bonds, international government securities, commercial paper, agency securities, mortgage-backed securities, and other asset-backed securities for which there is an active, quoted market. Market prices are obtained from a variety of industry standard providers, large financial institutions, and other third-party sources to calculate a representative daily market value, and therefore, these securities are classified as Level 2. These securities were liquidated in the first quarter of 2013.

The Company's financial assets and liabilities also include cash, 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 \$281.4 million as of April 28, 2013, and \$283.6 million as of October 28, 2012.

In accordance with the provisions of ASC 820, the Company also measures certain nonfinancial assets and liabilities at fair value that are recognized or disclosed on a nonrecurring basis (e.g. goodwill, intangible assets, and property, plant and equipment). During the six months ended April 28, 2013, and April 29, 2012, there were no remeasurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

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

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

| <u>(in thousands)</u>              | <b>Pension Benefits</b>   |                       |                         |                       |                       |                       |
|------------------------------------|---------------------------|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|
|                                    | <b>Three Months Ended</b> |                       | <b>Six Months Ended</b> |                       |                       |                       |
|                                    | <b>April 28, 2013</b>     | <b>April 29, 2012</b> | <b>April 28, 2013</b>   | <b>April 28, 2013</b> | <b>April 28, 2012</b> | <b>April 28, 2012</b> |
| Service cost                       | \$ 7,745                  | \$ 5,856              | \$ 15,490               | \$ 15,490             | \$ 11,712             | \$ 11,712             |
| Interest cost                      | 11,922                    | 12,284                | 23,844                  | 23,844                | 24,568                | 24,568                |
| Expected return on plan assets     | (18,286)                  | (17,128)              | (36,572)                | (36,572)              | (34,255)              | (34,255)              |
| Amortization of prior service cost | (1,270)                   | (1,270)               | (2,540)                 | (2,540)               | (2,540)               | (2,540)               |
| Recognized actuarial loss          | 8,504                     | 5,033                 | 17,009                  | 17,009                | 10,065                | 10,065                |
| Net periodic cost                  | \$ 8,615                  | \$ 4,775              | \$ 17,231               | \$ 17,231             | \$ 9,550              | \$ 9,550              |

| <u>(in thousands)</u>              | <b>Post-retirement Benefits</b> |                       |                         |                       |                       |                       |
|------------------------------------|---------------------------------|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|
|                                    | <b>Three Months Ended</b>       |                       | <b>Six Months Ended</b> |                       |                       |                       |
|                                    | <b>April 28, 2013</b>           | <b>April 29, 2012</b> | <b>April 28, 2013</b>   | <b>April 28, 2013</b> | <b>April 29, 2012</b> | <b>April 29, 2012</b> |
| Service cost                       | \$ 612                          | \$ 556                | \$ 1,224                | \$ 1,224              | \$ 1,112              | \$ 1,112              |
| Interest cost                      | 3,694                           | 4,437                 | 7,388                   | 7,388                 | 8,875                 | 8,875                 |
| Amortization of prior service cost | (333)                           | 883                   | (598)                   | (598)                 | 1,796                 | 1,796                 |
| Recognized actuarial loss (gain)   | 1,912                           | (1)                   | 3,825                   | 3,825                 | (2)                   | (2)                   |
| Net periodic cost                  | \$ 5,885                        | \$ 5,875              | \$ 11,839               | \$ 11,839             | \$ 11,781             | \$ 11,781             |

**NOTE L INCOME TAXES**

The amount of unrecognized tax benefits, including interest and penalties, at April 28, 2013, recorded in other long-term liabilities was \$22.1 million, of which \$14.6 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 gains of \$4.7 million and \$4.5 million included in expense in the second quarter and first six months, respectively, of fiscal 2013. The amount of accrued interest and penalties at April 28, 2013, associated with unrecognized tax benefits was \$3.2 million.

The Company is regularly audited by federal and state taxing authorities. During fiscal year 2012, the I.R.S. concluded its examination of the Company's consolidated federal income tax returns for the fiscal years through 2009, and opened its examination for fiscal years 2010 and 2011. The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2006. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

**NOTE M SEGMENT REPORTING**

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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.

Table of Contents

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

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

The Specialty Foods segment includes the Diamond Crystal Brands, Century Foods International, and Hormel Specialty Products operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, liquid portion products, dessert mixes, ready-to-drink products, sports nutrition products, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

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

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

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 |                   | Six Months Ended  |                   |
|----------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                              | April 28,<br>2013  | April 29,<br>2012 | April 28,<br>2013 | April 29,<br>2012 |
| <b>(in thousands)</b>                        |                    |                   |                   |                   |
| <b>Sales to Unaffiliated Customers</b>       |                    |                   |                   |                   |
| Grocery Products                             | \$ 393,505         | \$ 263,993        | \$ 727,645        | \$ 533,472        |
| Refrigerated Foods                           | 1,011,370          | 1,031,975         | 2,074,771         | 2,115,500         |
| Jennie-O Turkey Store                        | 384,739            | 391,053           | 775,073           | 768,424           |
| Specialty Foods                              | 245,691            | 228,947           | 479,536           | 446,971           |
| International & Other                        | 117,381            | 96,891            | 211,902           | 187,931           |
| Total                                        | \$ 2,152,686       | \$ 2,012,859      | \$ 4,268,927      | \$ 4,052,298      |
| <b>Intersegment Sales</b>                    |                    |                   |                   |                   |
| Grocery Products                             | \$                 | \$                | \$                | \$                |
| Refrigerated Foods                           | 3,296              | 3,131             | 5,739             | 5,544             |
| Jennie-O Turkey Store                        | 29,562             | 32,585            | 59,983            | 62,720            |
| Specialty Foods                              | 22                 | 26                | 53                | 67                |
| International & Other                        |                    |                   |                   |                   |
| Total                                        | \$ 32,880          | \$ 35,742         | \$ 65,775         | \$ 68,331         |
| Intersegment elimination                     | (32,880)           | (35,742)          | (65,775)          | (68,331)          |
| Total                                        | \$                 | \$                | \$                | \$                |
| <b>Net Sales</b>                             |                    |                   |                   |                   |
| Grocery Products                             | \$ 393,505         | \$ 263,993        | \$ 727,645        | \$ 533,472        |
| Refrigerated Foods                           | 1,014,666          | 1,035,106         | 2,080,510         | 2,121,044         |
| Jennie-O Turkey Store                        | 414,301            | 423,638           | 835,056           | 831,144           |
| Specialty Foods                              | 245,713            | 228,973           | 479,589           | 447,038           |
| International & Other                        | 117,381            | 96,891            | 211,902           | 187,931           |
| Intersegment elimination                     | (32,880)           | (35,742)          | (65,775)          | (68,331)          |
| Total                                        | \$ 2,152,686       | \$ 2,012,859      | \$ 4,268,927      | \$ 4,052,298      |
| <b>Segment Operating Profit</b>              |                    |                   |                   |                   |
| Grocery Products                             | \$ 47,295          | \$ 42,858         | \$ 97,208         | \$ 86,951         |
| Refrigerated Foods                           | 54,680             | 53,009            | 108,470           | 106,758           |
| Jennie-O Turkey Store                        | 51,999             | 70,198            | 110,944           | 146,960           |
| Specialty Foods                              | 25,967             | 20,859            | 49,728            | 37,506            |
| International & Other                        | 15,618             | 12,855            | 32,729            | 25,326            |
| Total segment operating profit               | \$ 195,559         | \$ 199,779        | \$ 399,079        | \$ 403,501        |
| Net interest and investment expense (income) | 2,026              | 945               | 3,310             | 2,569             |
| General corporate expense                    | 9,751              | 6,088             | 16,395            | 14,815            |
| Noncontrolling interest                      | 1,121              | 1,048             | 2,450             | 1,986             |
| Earnings before income taxes                 | \$ 184,903         | \$ 193,794        | \$ 381,824        | \$ 388,103        |

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 28, 2012.

**RESULTS OF OPERATIONS**

**Overview**

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

For the second quarter of fiscal 2013, the Company reported net earnings per diluted share of \$0.46, a decrease of 4.2 percent compared to \$0.48 per diluted share in the second quarter of fiscal 2012. Significant factors impacting the second quarter of fiscal 2013 were:

- Grocery Products results were positively impacted by strong sales of core product lines, including the addition of newly acquired *SKIPPY* peanut butter items.
- Increased grain costs in live production operations held down the overall performance of the Refrigerated Foods segment, offset by improved results in the other parts of the business.
- Jennie-O Turkey Store segment profit declined due to higher grain costs and lower commodity turkey meat prices.
- The International & Other segment achieved excellent results led by higher export sales of the *SPAM* family of products.
- Specialty Foods delivered notable earnings growth on sales increases.

**Consolidated Results**

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Net earnings attributable to the Company for the second quarter of fiscal 2013 decreased 1.9 percent to \$125.5 million compared to \$127.9 million in the same quarter of fiscal 2012. Diluted earnings per share for the second quarter decreased 4.2 percent to \$0.46 from \$0.48 diluted earnings per share last year. Net earnings attributable to the Company for the first six months of fiscal 2013 decreased 0.4 percent to \$255.2 million compared to \$256.3 million in fiscal 2012. Diluted earnings per share for the same period were \$0.95 in fiscal 2013, even with the prior year.

Net sales for the second quarter of fiscal 2013 increased 6.9 percent to \$2.15 billion versus \$2.01 billion in the second quarter of fiscal 2012, with three of the five reporting segments generating top line growth. Tonnage growth was more modest, increasing 3.8 percent to 1.24 billion lbs. for the second quarter compared to 1.20 billion lbs. in the same quarter of last year, reflecting planned harvest reductions in the Company's hog and turkey processing operations. Net sales for the first six months of fiscal 2013 increased 5.3 percent to \$4.27 billion from \$4.05 billion in the first six months of fiscal 2012. Tonnage for the first six months of fiscal 2013 increased 2.7 percent to 2.48 billion lbs. compared to 2.41 billion lbs. in 2012.

Net sales were enhanced by the inclusion of sales of Don Miguel Foods Corp. products (additional product lines within the MegaMex joint venture) in the Grocery Products segment, as the Company's retail sales force assumed responsibility for these sales beginning in the third quarter of fiscal 2012. These sales contributed an incremental \$48.7 million of net sales and 22.4 million lbs. to the top-line results for the quarter, and \$103.2 million of net sales and 47.4 million lbs. for the first six months of 2013. The addition of the newly acquired *SKIPPY* peanut butter business further benefitted the top-line for the Company, contributing \$87.0 million of net sales and 48.6 million lbs. within the second quarter. Higher export sales of the *SPAM* family of products by the Company's International business also provided notable growth. Jennie-O Turkey Store saw continued growth in its value-added turkey products, but experienced an overall sales decline due to reduced harvest levels and lower commodity turkey meat prices.

Table of Contents

Gross profit for the second quarter and first six months of fiscal 2013 was \$352.8 million and \$697.0 million, respectively, compared to \$335.6 million and \$673.0 million for the same periods last year. Gross profit as a percentage of net sales for the second quarter decreased to 16.4 percent compared to 16.7 percent the prior year, and decreased to 16.3 percent for the first six months of fiscal 2013 from 16.6 percent for the comparable six months of fiscal 2012. Solid margin gains were experienced on export sales of the *SPAM* family of products in the International & Other segment during the quarter, and strong sales combined with lower raw material costs generated margin improvement for the Specialty Foods segment. However, these increases were unable to fully offset lower margins for the Jennie-O Turkey Store segment driven by continued high grain costs and weak commodity turkey prices. Margins in Refrigerated Foods improved modestly as improved results in other parts of the business offset losses in the Company's live production operations. Additionally, shipping and handling expenses to date in fiscal 2013 have increased in four of the Company's five segments.

Entering the second half of the fiscal year, the Company anticipates continued success in the Grocery Products and International & Other segments. In addition to organic growth, results for these segments will continue to benefit from the addition of *SKIPPY* sales. The contract allowing Diamond Crystal Brands to sell *SPLENDA*® sweetener into foodservice trade channels will expire at the end of June 2013 in the ordinary course of business, and results for the Specialty Foods segment will be challenged by the loss of these sales in the back half of the year. Pork operating margins and challenges in live hog production operations are expected to improve for the Refrigerated Foods segment as the year progresses. Results in Jennie-O Turkey Store are expected to improve as pressures from higher commodity grain prices and weaker turkey commodity meat prices begin to moderate.

Selling, general and administrative expenses for the second quarter and first six months of fiscal 2013 were \$173.1 million and \$328.9 million, respectively, compared to \$148.7 million and \$301.2 million for the same periods last year. Selling, general and administrative expenses as a percentage of net sales increased to 8.0 percent and 7.7 percent, respectively, for the second quarter and first six months of fiscal 2013, compared to 7.4 percent for both the second quarter and first six months of fiscal 2012. Transition and transaction costs incurred due to the *SKIPPY* acquisition were the main drivers of the increased expense for both the second quarter and first six months of fiscal 2013 compared to the prior year. Higher advertising and marketing expenses also contributed to the increase in the current year. The Company expects selling, general and administrative expenses to be approximately 7.5 percent of net sales for the full year in fiscal 2013.

Equity in earnings of affiliates was \$7.2 million and \$17.0 million for the second quarter and first six months of fiscal 2013, respectively, compared to \$7.8 million and \$18.8 million last year. Small gains in the Company's 50 percent owned MegaMex joint venture were unable to offset declines in the Company's international joint ventures for the quarter. For the full year, lower results from the Company's 50 percent owned MegaMex joint venture drove the decrease for fiscal 2013 compared to the prior year.

The effective tax rate for the second quarter and first six months of fiscal 2013 was 31.5 percent and 32.5 percent, respectively, compared to 33.5 percent for both the second quarter and first six months of fiscal 2012. The lower rate for the first six months of fiscal 2013 is primarily due to net favorable discrete items resulting from prior year tax adjustments and settlements with various foreign and state tax jurisdictions. The Company expects a full-year effective tax rate between 33.0 and 34.0 percent for fiscal 2013.

Table of Contents**Segment Results**

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

| <b>(in thousands)</b>                        | <b>April 28,<br/>2013</b> | <b>Three Months Ended<br/>April 29,<br/>2012</b> | <b>%<br/>Change</b> | <b>April 28,<br/>2013</b> | <b>Six Months Ended<br/>April 29,<br/>2012</b> | <b>%<br/>Change</b> |
|----------------------------------------------|---------------------------|--------------------------------------------------|---------------------|---------------------------|------------------------------------------------|---------------------|
| <b>Net Sales</b>                             |                           |                                                  |                     |                           |                                                |                     |
| Grocery Products                             | \$ 393,505                | \$ 263,993                                       | 49.1                | \$ 727,645                | \$ 533,472                                     | 36.4                |
| Refrigerated Foods                           | 1,011,370                 | 1,031,975                                        | (2.0)               | 2,074,771                 | 2,115,500                                      | (1.9)               |
| Jennie-O Turkey Store                        | 384,739                   | 391,053                                          | (1.6)               | 775,073                   | 768,424                                        | 0.9                 |
| Specialty Foods                              | 245,691                   | 228,947                                          | 7.3                 | 479,536                   | 446,971                                        | 7.3                 |
| International & Other                        | 117,381                   | 96,891                                           | 21.1                | 211,902                   | 187,931                                        | 12.8                |
| Total                                        | \$ 2,152,686              | \$ 2,012,859                                     | 6.9                 | \$ 4,268,927              | \$ 4,052,298                                   | 5.3                 |
| <b>Segment Operating Profit</b>              |                           |                                                  |                     |                           |                                                |                     |
| Grocery Products                             | \$ 47,295                 | \$ 42,858                                        | 10.4                | \$ 97,208                 | \$ 86,951                                      | 11.8                |
| Refrigerated Foods                           | 54,680                    | 53,009                                           | 3.2                 | 108,470                   | 106,758                                        | 1.6                 |
| Jennie-O Turkey Store                        | 51,999                    | 70,198                                           | (25.9)              | 110,944                   | 146,960                                        | (24.5)              |
| Specialty Foods                              | 25,967                    | 20,859                                           | 24.5                | 49,728                    | 37,506                                         | 32.6                |
| International & Other                        | 15,618                    | 12,855                                           | 21.5                | 32,729                    | 25,326                                         | 29.2                |
| Total segment operating profit               | \$ 159,559                | \$ 199,779                                       | (2.1)               | \$ 399,079                | \$ 403,501                                     | (1.1)               |
| Net interest and investment expense (income) | 2,026                     | 945                                              | 114.4               | 3,310                     | 2,569                                          | 28.8                |
| General corporate expense                    | 9,751                     | 6,088                                            | 60.2                | 16,395                    | 14,815                                         | 10.7                |
| Noncontrolling interest                      | 1,121                     | 1,048                                            | 7.0                 | 2,450                     | 1,986                                          | 23.4                |
| Earnings before income taxes                 | \$ 184,903                | \$ 193,794                                       | (4.6)               | \$ 381,824                | \$ 388,103                                     | (1.6)               |

**Grocery Products**

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

Grocery Products net sales increased 49.1 percent and 36.4 percent for the second quarter and first six months of fiscal 2013, respectively, compared to the same fiscal 2012 periods. Tonnage increased 47.2 percent for the second quarter and 33.2 percent for the first six months of fiscal 2013 compared to the prior year. The comparative results reflect the addition of Don Miguel Foods Corp. sales (additional product lines within the MegaMex joint venture), as the Company's retail sales force assumed responsibility for these sales beginning in the third quarter of fiscal 2012. The addition of the newly acquired *SKIPPY* peanut butter business also aided growth in the quarter. On a combined basis, these businesses contributed an incremental \$119.2 million of net sales and 63.5 million lbs. to the top-line results for the quarter, and \$173.7 million of net sales and 88.5 million lbs. to the top-line results for the first six months of 2013.



Table of Contents

The positive performance of Grocery Products in the second quarter of fiscal 2013 was also driven by sales gains in core product lines, including *Chi-Chi's* and *Herdez* Mexican products, the *SPAM* family of products, and *Dinty Moore* stew. Sales of the *Hormel Compleats* line of microwave meals also improved for the second consecutive quarter as the introduction of new cheesy pasta meals helped drive growth. These increases more than offset declines in categories such as *Hormel* chunk and imported meats.

Segment profit for Grocery Products increased 10.4 percent and 11.8 percent for the second quarter and first six months of fiscal 2013, respectively, compared to the second quarter and first six months of fiscal 2012. Profit results for the second quarter benefitted from lower pork and beef input costs, as well as volume increases in core products such as the *SPAM* family of products and *Hormel* chili. However, transaction and transition costs related to the *SKIPPY* acquisition impacted fiscal 2013 results and the year-over-year profit comparisons for both the second quarter and six months.

The Company anticipates continued growth for this segment entering the third quarter. Solid momentum is expected to continue in core canned items, Mexican products, microwave meals, and the newly acquired *SKIPPY* franchise. The Company will continue to support these items with advertising campaigns and merchandising events. Although increasing input costs may be a concern, the Company expects the initiatives in place to drive sales growth should result in a strong finish to fiscal 2013 for Grocery Products.

**Refrigerated Foods**

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

Net sales for the Refrigerated Foods segment decreased 2.0 percent and 1.9 percent for the second quarter and first six months of fiscal 2013, respectively, compared to the same periods of fiscal 2012. Tonnage decreased 4.3 percent and 3.3 percent for the second quarter and first six months compared to the prior year. Declines for the second quarter primarily reflect lower sales of commodity pork items, as harvest levels were reduced in order to limit the Company's exposure to unfavorable pork operating margins, and from planned reductions in this segment's feed sales business. However, top-line gains were reported across several key value-added product categories.

Sales gains in the value-added businesses included *Hormel* convenience bacon, *Lloyd's* ribs, and *Hormel* party trays in the Meat Products business unit. The new *Hormel REV* wraps also began shipping nationally in the second quarter, and the Company will be launching a significant advertising campaign to support this new product line in the third quarter. Within the Foodservice business unit, sales of *Hormel Natural Choice* deli meats and *Hormel* pecanwood bacon experienced significant growth, along with strong sales of the new *Hormel Fire Braised* meats.

Segment profit for Refrigerated Foods increased 3.2 percent and 1.6 percent for the second quarter and first six months of fiscal 2013, respectively, compared to the prior year. Increased grain costs in the live production operations held down the overall performance of the Refrigerated Foods segment, offset by improved results in other parts of the business.

Entering the second half of the year, the Company expects Refrigerated Foods to benefit from its value-added product lines, driven by both continued expansion of core products and new item introductions. While pork operating margins have been more unfavorable than anticipated in the first half of fiscal 2013, the Company expects to see improvement in the latter half of the year.

Table of Contents

**Jennie-O Turkey Store**

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

JOTS net sales decreased 1.6 percent for the second quarter and increased 0.9 percent for the first six months of fiscal 2013, respectively, versus the comparable periods of fiscal 2012. Tonnage decreased 4.4 percent for the second quarter and 2.3 percent for the first six months of fiscal 2013, compared to fiscal 2012 results. Notable sales gains were seen on value-added product lines such as *Jennie-O Turkey Store* fresh try pack items and turkey bacon, as this segment continues to benefit from the *Make the Switch* advertising campaign. JOTS lowered harvest levels by more than two percent during the quarter to reduce the segment's exposure to weak commodity turkey prices, which contributed to the overall net sales decrease. Reduced deli sales also contributed to the top-line declines for both the second quarter and six months compared to fiscal 2012.

JOTS segment profit decreased 25.9 percent and 24.5 percent for the second quarter and first six months of fiscal 2013, respectively, compared to the prior year. Significantly higher grain costs and lower commodity turkey meat prices were key drivers of the profit reduction for the second quarter and six months. The increased value-added product sales in the retail and foodservice trade channels were encouraging yet not enough to fully offset those headwinds.

Looking forward, JOTS will continue to focus on higher value-added sales in the second half of the year. Although recent commodity markets continue to be weak and feed costs remain elevated, the Company expects these pressures to moderate during the remainder of the year, and will continue to mitigate their impact through ongoing management of harvest levels and cost reduction initiatives. Industry wide higher cold storage inventories may also keep pressure on pricing. Third quarter results will be challenged by these factors, but the Company does anticipate improved year-over-year results for JOTS for the latter half of fiscal 2013.

**Specialty Foods**

The Specialty Foods segment includes the Diamond Crystal Brands (DCB), Century Foods International (CFI), and Hormel Specialty Products (HSP) operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, liquid portion products, dessert mixes, ready-to-drink products, sports nutrition products, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

Specialty Foods net sales increased 7.3 percent for both the second quarter and first six months of fiscal 2013, compared to the same periods of fiscal 2012. Tonnage increased 4.0 percent for the second quarter and 2.5 percent for the first six months of fiscal 2013 compared to the prior year. Sales growth at CFI drove top-line increases for the quarter, led by strong sales of ready-to-drink and nutritional products. Strong ingredient and private label canned meat sales were also seen by HSP for the second quarter compared to the prior year. For DCB, stronger sugar substitute sales were unable to offset declines in sugar and liquid portion sales.

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Specialty Foods segment profit increased 24.5 percent for the second quarter and 32.6 percent for the first six months of fiscal 2013, compared to fiscal 2012 results. The strong results for the quarter were driven by gains from all three operating segments. Bottom-line gains for DCB were driven by improved margins in several key categories, including sugar, sugar substitutes, blended items, and Hormel Health Labs products. Successful efforts to diversify the customer base and improve the product mix continue to drive the improved results for CFI. Strong ingredient sales reflecting past pricing actions generated profit gains for HSP.

The contract allowing DCB to sell SLENDA® sweetener into foodservice trade channels will expire at the end of June 2013, and the Specialty Foods segment will be challenged by the loss of those sweetener sales in the second half of the year. This loss of business will also necessitate DCB's closing of its Perrysburg, Ohio plant by the end of fiscal 2013.

Table of Contents

**International & Other**

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

International & Other net sales increased 21.1 percent and 12.8 percent for the second quarter and first six months of fiscal 2013, respectively, as compared to fiscal 2012. Strong export sales of the *SPAM* family of products and continued improved results by the Company's China operations were the principal drivers of the top-line results for the second quarter and fresh pork exports also increased for the six months compared to the prior year. The addition of worldwide *SKIPPY* sales (excluding Mainland China) also enhanced the top-line results, contributing \$16.5 million of net sales and 7.5 million lbs. in the second quarter.

Segment profit for this segment also increased significantly, up 21.5 percent for the second quarter and 29.2 percent for the first six months of fiscal 2013, respectively, compared to fiscal 2012 results. Despite declines in fresh pork export volumes, an improved product mix and increased sales expansion to key regions resulted in improved fresh pork export profitability for the quarter. Robust exports of the *SPAM* family of products and improved results for the Company's other China operations also enhanced profits, offsetting overall declines for the Company's international joint ventures. Transaction and transition costs related to the *SKIPPY* acquisition did negatively impact segment profit for the quarter, as well as comparisons to fiscal 2012.

The Company expects HFI to continue to provide strong earnings growth in the second half of the year. Higher sales of the *SPAM* family of products and fresh pork sales, along with continued strong results in China, will drive performance. The incremental *SKIPPY* sales will also have a positive impact on results for the balance of the year, and HFI expects to benefit from the combined distribution of the *SPAM* family of products and new *SKIPPY* items. The Company still expects to close on the acquisition of the *SKIPPY* China based business located in Weifang by the end of the fiscal year.

**Unallocated Income and Expenses**

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

Net interest and investment expense (income) for the second quarter and first six months of fiscal 2013 was a net expense of \$2.0 million and \$3.3 million, respectively, compared to a net expense of \$0.9 million and \$2.6 million for the second quarter and first six months of fiscal 2012. The increased net expense for both the second quarter and six months primarily reflects lower interest income, as the acquisition of the United States based *SKIPPY* peanut butter business decreased invested funds in the current year. Interest expense of \$6.2 million for the first six months of fiscal 2013 decreased from \$6.5 million in the prior year, and the Company anticipates that interest expense will approximate \$12.0 to \$14.0 million for the full year in fiscal 2013.

General corporate expense for the second quarter and first six months of fiscal 2013 was \$9.8 million and \$16.4 million, respectively, versus \$6.1 million and \$14.8 million for the comparable periods of fiscal 2012. The increased expense during fiscal 2013 is primarily due to higher employee related costs.

Net earnings attributable to the Company's noncontrolling interests were \$1.1 million and \$2.5 million for the second quarter and first six months of fiscal 2013, respectively, compared to \$1.0 million and \$2.0 million for the comparable periods of fiscal 2012. The increased earnings for both the second quarter and six months reflect improved results for the Company's China operations compared to the prior year.

Table of Contents

**Related Party Transactions**

There has been no material change in the information regarding Related Party Transactions that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2012.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$262.7 million at the end of the second quarter of fiscal year 2013 compared to \$524.8 million at the end of the comparable fiscal 2012 period.

Cash provided by operating activities was \$257.6 million in the first six months of fiscal 2013 compared to \$213.0 million in the same period of fiscal 2012. Favorable overall changes in working capital balances and increased dividends received from the Company's joint ventures compared to the prior year offset slightly lower earnings.

Cash used in investing activities increased to \$631.8 million in the first six months of fiscal 2013 from \$51.8 million in the comparable period of fiscal 2012. In anticipation of the second quarter acquisition of the United States based *SKIPPY* peanut butter business from Unilever United States Inc., the Company liquidated its marketable securities portfolio at the end of the first quarter, which generated \$77.6 million in cash. The Company then completed that acquisition on January 31, 2013, for a preliminary purchase price of \$663.1 million in cash, plus related expenses. Capital expenditures in the first six months of fiscal 2013 have decreased to \$45.5 million from \$58.2 million in the comparable six months of fiscal 2012. The Company currently estimates its fiscal 2013 capital expenditures will be approximately \$120.0 to \$130.0 million.

Cash used in financing activities was \$45.6 million in the first six months of fiscal 2013 compared to \$100.6 million in the same period of fiscal 2012. Proceeds generated from the Company's stock option plan exercises increased \$18.6 million in fiscal 2013. The Company also used \$7.9 million for common stock repurchases in the first six months of fiscal 2013, compared to \$42.1 million in the same period of the prior year. For additional information pertaining to the Company's share repurchase plans or programs, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Cash dividends paid to the Company's shareholders also continue to be an ongoing financing activity for the Company. Dividends paid in the first six months of 2013 were \$84.4 million compared to \$73.2 million in the comparable period of fiscal 2012. For fiscal 2013, the annual dividend rate was increased to \$0.68 per share, representing the 47th consecutive annual dividend increase. The Company has paid dividends for 339 consecutive quarters and expects to continue doing so.

The Company is required, by certain covenants in its debt agreements, to maintain specified levels of financial ratios and financial position. At the end of the second quarter of fiscal 2013, the Company was in compliance with all of these debt covenants.

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

Maximizing the value returned to shareholders through dividend payments remains a priority for use of the Company's strong cash position in fiscal 2013. Additional share repurchase activity and capital spending to enhance and expand current operations is also expected to continue throughout the year. The Company also remains well positioned to take advantage of additional strategic investment opportunities and continues to evaluate options in that area.

Table of Contents

**Contractual Obligations and Commercial Commitments**

The Company records income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The Company is unable to determine its contractual obligations by year related to this pronouncement, as the ultimate amount or timing of settlement of its reserves for income taxes cannot be reasonably estimated. The total liability for unrecognized tax benefits, including interest and penalties, at April 28, 2013, was \$22.1 million.

As noted above, the Company acquired the United States based portion of the *SKIPPY* peanut butter business from Conopco, Inc. (doing business as Unilever United States Inc.), of Englewood Cliffs, N.J. on January 31, 2013, for a preliminary purchase price of \$663.1 million. The Company intends to close the acquisition of the China based portion of that business by the end of fiscal year 2013 for an additional investment of approximately \$42.0 million, subject to regulatory approvals and working capital adjustments. There have been no other material changes to the information regarding the Company's future contractual financial obligations that was disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2012.

**Off-Balance Sheet Arrangements**

As of April 28, 2013, and October 28, 2012, the Company had \$43.6 million and \$43.9 million, respectively, of standby letters of credit issued on its behalf. The standby letters of credit are primarily related to the Company's self-insured worker's compensation programs. However, that amount also includes a revocable \$5.6 million standby letter of credit for obligations of an affiliated party that may arise under worker's compensation claims. Letters of credit are not reflected in the Company's Consolidated Statements of Financial Position.

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking information within the meaning of the federal securities laws. The forward-looking information may include statements concerning the Company's outlook for the future as well as other statements of beliefs, future plans, strategies, or anticipated events and similar expressions concerning matters that are not historical facts.

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

In connection with the safe harbor provisions of the Reform Act, the Company is identifying risk factors that could affect financial performance and cause the Company's actual results to differ materially from opinions or statements expressed with respect to future periods. The discussion

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of risk factors in Part II, Item 1A of this Quarterly Report on Form 10-Q contains certain cautionary statements regarding the Company's business, which should be considered by investors and others. Such risk factors should be considered in conjunction with any discussions of operations or results by the Company or its representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by the Company.

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

Table of Contents

investors and others that other factors may in the future prove to be important in affecting the Company's business or results of operations.

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

Table of Contents

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

**Hog Markets:** The Company's earnings are affected by fluctuations in the live hog market. To minimize the impact on earnings, and to ensure a steady supply of quality hogs, the Company has entered into contracts with producers for the purchase of hogs at formula-based prices over periods of up to 10 years. Purchased hogs under contract accounted for 98 percent of the total hogs purchased by the Company during the first six months of fiscal 2013 and 2012. The majority of these contracts use market-based formulas based on hog futures, hog primal values, or industry reported hog markets. Other contracts use a formula based on the cost of production, which can fluctuate independently from hog markets. Under normal, long-term market conditions, changes in the cash hog market are offset by proportional changes in primal values. Therefore, a hypothetical 10 percent change in the cash hog market would have had an immaterial effect on the Company's results of operations.

Certain procurement contracts allow for future hog deliveries (firm commitments) to be forward priced. The Company generally hedges these firm commitments by using hog futures contracts. These futures contracts are designated and accounted for as fair value hedges. The change in the market value of such futures contracts is highly effective at offsetting changes in price movements of the hedged item, and the Company evaluates the effectiveness of the contracts on a regular basis. Changes in the fair value of the futures contracts, along with the gain or loss on the firm commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. The fair value of the Company's open futures contracts as of April 28, 2013, was \$2.2 million compared to \$(2.3) million as of October 28, 2012.

The Company measures its market risk exposure on its hog futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in market prices. A 10 percent increase in market prices would have negatively impacted the fair value of the Company's April 28, 2013, open contracts by \$6.2 million, which in turn would lower the Company's future cost of purchased hogs by a similar amount.

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

To manage the Company's exposure to changes in grain prices, the Company utilizes a hedge program to offset the fluctuation in the Company's future direct grain purchases. This program currently utilizes corn futures, and these contracts are accounted for under cash flow hedge accounting. The open contracts are reported at their fair value with an unrealized loss of \$5.9 million, before tax, on the Consolidated Statement of Financial Position as of April 28, 2013, compared to an unrealized gain of \$9.5 million, before tax, as of October 28, 2012.

The Company measures its market risk exposure on its grain futures contracts using a sensitivity analysis, which considers a hypothetical 10 percent change in the market prices for grain. A 10 percent decrease in the market price for grain would have negatively impacted the fair value of the Company's April 28, 2013, open grain contracts by \$8.8 million, which in turn would lower the Company's future cost on purchased grain by a similar amount.

**Long-Term Debt:** A principal market risk affecting the Company is the exposure to changes in interest rates on the Company's fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10

percent decrease in interest rates, and amounts to approximately \$4.7 million. The fair value of the Company's long-term debt was estimated using discounted future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements.

**Investments:** The Company holds trading securities as part of a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. As of April 28, 2013, the balance of these securities totaled \$112.4 million. A majority of these securities represent fixed income funds. The Company is subject to market risk due to fluctuations in the value of the remaining investments, as unrealized gains and losses associated with these securities are included in the Company's net earnings on a mark-to-market basis. A 10 percent decline in the value of the investments not held in fixed income funds would have a direct negative

Table of Contents

impact to the Company's pretax earnings of approximately \$3.8 million, while a 10 percent increase in value would have a positive impact of the same amount.

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

**Item 4. Controls and Procedures**

(a) Disclosure Controls and Procedures.

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

(b) Internal Controls.

During the second quarter of fiscal year 2013, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is a party to various legal proceedings related to the on-going operation of its business, including claims both by and against the Company. At any time, such proceedings typically involve claims related to product liability, contract disputes, wage and hour laws, employment practices, or other actions brought by employees, consumers, competitors, or suppliers. The Company establishes accruals for its potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. However, future developments or settlements are uncertain and may require the Company to change such accruals as proceedings progress. Resolution of any currently known matters, either individually or in the aggregate, is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

**Item 1A. Risk Factors**

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

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

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

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

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

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

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

- The financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for the Company or non-performance by suppliers; and
- The value of our investments in debt and equity securities may decline, including most significantly the Company's trading securities held as part of a rabbi trust to fund supplemental executive retirement plans and deferred income plans, and the Company's assets held in pension plans.

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

The Company's operations are subject to extensive regulation by the U.S. Department of Homeland Security, the U.S. Department of Agriculture, the U.S. Food and Drug Administration, federal and state taxing authorities, and other state and local authorities that oversee workforce immigration laws, tax regulations, animal welfare, food safety standards, and the processing, packaging, storage, distribution, advertising, and labeling of the Company's products. The Company's manufacturing facilities and products are subject to constant inspection by federal, state, and local authorities. Claims or enforcement proceedings could be brought against the Company in the future. The availability of government inspectors due to a government furlough could also cause disruption to the Company's manufacturing facilities. Additionally, the Company is subject to new or modified laws, regulations,

Table of Contents

and accounting standards. The Company's failure or inability to comply with such requirements could subject the Company to civil remedies, including fines, injunctions, recalls, or seizures, as well as potential criminal sanctions.

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

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

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

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

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

The Company has approximately 19,700 employees worldwide, of which approximately 5,700 are represented by labor unions, principally the United Food and Commercial Workers Union. A significant increase in labor costs or a deterioration of labor relations at any of the Company's facilities that results in work slowdowns or stoppages could harm the Company's financial results. The union contract at the Company's facility in Lathrop, California will expire during fiscal 2013, covering approximately 85 employees. Negotiations at this facility currently are ongoing.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities in the Second Quarter of Fiscal 2013**

| Period           |                | Total<br>Number of<br>Shares<br>Purchased(1) | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs(2) | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs(2) |
|------------------|----------------|----------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| January 28, 2013 | March 3, 2013  | 5,140                                        | \$ 36.85                           | 5,000                                                                                           | 11,185,200                                                                                    |
| March 4, 2013    | March 31, 2013 | 95,000                                       | 38.68                              | 95,000                                                                                          | 11,090,200                                                                                    |
| April 1, 2013    | April 28, 2013 | 100,256                                      | 40.70                              | 100,000                                                                                         | 10,990,200                                                                                    |
| Total            |                | 200,396                                      | \$ 39.64                           | 200,000                                                                                         |                                                                                               |

(1)The 396 shares repurchased during the second quarter, other than through publicly announced plans or programs, represent purchases for a Company employee award program.

(2)On May 26, 2010, the Company announced that its Board of Directors had authorized the Company to repurchase up to 5,000,000 shares of common stock with no expiration date. On November 22, 2010, the Board of Directors authorized a two-for-one split of the Company's common stock. As part of the resolution to approve that stock split, the number of shares remaining to be repurchased was adjusted proportionately. The stock split was approved by shareholders and was subsequently effected on February 1, 2011. All numbers in the table above reflect the impact of this stock split.

On January 31, 2013, the Company announced that its Board of Directors had authorized the repurchase of up to an additional 10,000,000 shares of its common stock with no expiration date. The repurchase program was authorized at a meeting of the Company's Board of Directors on January 29, 2013. The Company's prior share repurchase program authorized in fiscal 2010 will be fully utilized prior to commencing purchases under this new authorization.

**Item 6. Exhibits**

|         |                                                                                                                       |
|---------|-----------------------------------------------------------------------------------------------------------------------|
| 31.1    | Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002                                            |
| 31.2    | Certification Required Under Section 302 of the Sarbanes-Oxley Act of 2002                                            |
| 32.1    | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document                                                                                                |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                               |

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|         |                                                        |
|---------|--------------------------------------------------------|
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

Table of Contents

**SIGNATURES**

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

**HORMEL FOODS CORPORATION**  
(Registrant)

Date: June 7, 2013

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

Date: June 7, 2013

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