HORMEL FOODS CORP /DE/
Form 10-Q
March 10, 2017
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 January 29, 2017

or

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

For the transition period from ______________________________ to ___________________________________

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	41-0319970

(State or other jurisdiction of incorporation or 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. _X_ YES ___ NO

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

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

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

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

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

Class	**Outstanding at March 5, 2017**	
Common Stock	$.01465 par value	528,913,262
Common Stock Non-Voting	$.01 par value	-0

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

		January 29, 2017 (Unaudited)		October 30, 2016
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	609,821	$	415,143
Accounts receivable		530,851		591,310
Inventories		958,130		985,683
Income taxes receivable		-		18,282
Prepaid expenses		15,356		13,775
Other current assets		5,428		5,719
TOTAL CURRENT ASSETS		2,119,586		2,029,912
DEFERRED INCOME TAXES		-		6,223
GOODWILL		1,822,671		1,834,497
OTHER INTANGIBLES		886,797		903,258
PENSION ASSETS		73,535		68,901
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES		243,868		239,590
OTHER ASSETS		184,666		182,237
PROPERTY, PLANT AND EQUIPMENT				
Land		46,472		67,557
Buildings		734,119		805,858
Equipment		1,587,599		1,675,549
Construction in progress		189,657		218,351
		2,557,847		2,767,315
Less: Allowance for depreciation		(1,522,572)		(1,661,866)
		1,035,275		1,105,449
TOTAL ASSETS	$	6,366,398	$	6,370,067

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	January 29, 2017 (Unaudited)	October 30, 2016
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 387,711	$ 481,826
Accrued expenses	65,306	82,145
Accrued workers compensation	25,224	36,612
Accrued marketing expenses	128,703	119,583
Employee related expenses	154,826	251,433
Taxes payable	65,016	4,331
Interest and dividends payable	92,976	77,266
TOTAL CURRENT LIABILITIES	919,762	1,053,196
LONG-TERM DEBT less current maturities	250,000	250,000
PENSION AND POST-RETIREMENT BENEFITS	524,752	522,356
OTHER LONG-TERM LIABILITIES	90,351	93,109
DEFERRED INCOME TAXES	6,236	-
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value $.01465 a share authorized 1,600,000,000 shares; issued 528,804,300 shares January 29, 2017 issued 528,483,868 shares October 30, 2016	7,747	7,742
Additional paid-in capital	-	-
Accumulated other comprehensive loss	(302,140)	(296,303)
Retained earnings	4,866,374	4,736,567
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	4,571,981	4,448,006
NONCONTROLLING INTEREST	3,316	3,400
TOTAL SHAREHOLDERS INVESTMENT	4,575,297	4,451,406
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 6,366,398	$ 6,370,067

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	January 29, 2017	January 24, 2016
Net sales	$ 2,280,227	$ 2,292,672
Cost of products sold	1,727,947	1,734,661
GROSS PROFIT	552,280	558,011
Selling, general and administrative	210,217	209,948
Equity in earnings of affiliates	13,299	11,475
OPERATING INCOME	355,362	359,538
Other income and expense:		
Interest and investment income (expense)	2,449	(1,963)
Interest expense	(3,026)	(3,407)
EARNINGS BEFORE INCOME TAXES	354,785	354,168
Provision for income taxes	119,482	119,001
NET EARNINGS	235,303	235,167
Less: Net earnings attributable to noncontrolling interest	156	106
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 235,147	$ 235,061
NET EARNINGS PER SHARE:		
BASIC	$ 0.44	$ 0.44
DILUTED	$ 0.44	$ 0.43
WEIGHTED-AVERAGE SHARES OUTSTANDING:		
BASIC	528,585	528,862
DILUTED	540,064	542,737
DIVIDENDS DECLARED PER SHARE:	$ 0.170	$ 0.145

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended	
	January 29, 2017	January 24, 2016
NET EARNINGS	$ 235,303	$ 235,167
Other comprehensive (loss) income, net of tax:		
Foreign currency translation	(8,087)	(2,615)
Pension and other benefits	3,333	1,766
Deferred hedging	(1,323)	(1,298)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(6,077)	(2,147)
COMPREHENSIVE INCOME	229,226	233,020
Less: Comprehensive (loss) income attributable to noncontrolling interest	(84)	30
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 229,310	$ 232,990

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT

(in thousands, except per share amounts)

(Unaudited)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders Investment
Balance at October 25, 2015	$ 7,741	$ -	$ -	$ 4,216,125	$ (225,668)	$ 3,195	$ 4,001,393
Net earnings				890,052		465	890,517
Other comprehensive loss					(70,635)	(260)	(70,895)
Purchases of common stock		(87,885)					(87,885)
Stock-based compensation expense	1		17,828				17,829
Exercise of stock options/nonvested shares	35		7,476				7,511
Shares retired	(35)	87,885	(25,304)	(62,546)			-
Declared cash dividends - $0.58 per share				(307,064)			(307,064)
Balance at October 30, 2016	$ 7,742	$ -	$ -	$ 4,736,567	$ (296,303)	$ 3,400	$ 4,451,406
Net earnings				235,147		156	235,303
Other comprehensive loss					(5,837)	(240)	(6,077)
Purchases of common stock		(30,588)					(30,588)
Stock-based compensation expense			7,240				7,240
Exercise of stock options/nonvested shares	18		7,755				7,773
Shares retired	(13)	30,588	(14,995)	(15,580)			-
Declared cash dividends - $0.17 per share				(89,760)			(89,760)
Balance at January 29, 2017	$ 7,747	$ -	$ -	$ 4,866,374	$ (302,140)	$ 3,316	$ 4,575,297

See Notes to Consolidated Financial Statements

Table of Contents

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended	
	January 29, 2017	**January 24, 2016**
OPERATING ACTIVITIES		
Net earnings	$ 235,303	$ 235,167
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	29,247	29,679
Amortization of intangibles	2,072	2,125
Equity in earnings of affiliates, net of dividends	(10,776)	(6,454)
Provision for deferred income taxes	11,215	(1,735)
(Gain)/loss on property/equipment sales and plant facilities	(801)	126
Non-cash investment activities	(1,208)	2,081
Stock-based compensation expense	7,240	7,162
Excess tax benefit from stock-based compensation	(17,630)	(20,149)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease (increase) in accounts receivable	36,507	50,951
(Increase) decrease in inventories	(17,513)	(1,439)
(Increase) decrease in prepaid expenses and other current assets	(1,144)	7,917
Increase (decrease) in pension and post-retirement benefits	3,238	1,047
(Decrease) increase in accounts payable and accrued expenses	(98,131)	(27,787)
NET CASH PROVIDED BY OPERATING ACTIVITIES	177,619	278,691
INVESTING ACTIVITIES		
Sale of business	135,944	-
Purchases of property/equipment	(37,895)	(33,480)
Proceeds from sales of property/equipment	3,926	1,411
Decrease in investments, equity in affiliates, and other assets	3,596	11,088
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	105,571	(20,981)
FINANCING ACTIVITIES		
Principal payments on short-term debt	-	(185,000)
Dividends paid on common stock	(76,629)	(66,137)
Share repurchase	(30,588)	-
Proceeds from exercise of stock options	7,398	3,514
Excess tax benefit from stock-based compensation	17,630	20,149
NET CASH USED IN FINANCING ACTIVITIES	(82,189)	(227,474)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6,323)	(2,260)
INCREASE IN CASH AND CASH EQUIVALENTS	194,678	27,976
Cash and cash equivalents at beginning of year	415,143	347,239
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 609,821	$ 375,215

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 30, 2016, 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 30, 2016. Fiscal 2017 is a 52-week year as compared with fiscal 2016, which was 53 weeks, with the additional week occurring in the fourth quarter.

Reclassifications

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

Assets Held For Sale

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

Investments

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans, which is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities and consist mainly of fixed return investments. Therefore, unrealized gains and losses associated with these investments are included in the Company s earnings. Securities held by the trust generated a gain of $1.5 million for the quarter ended January 29, 2017, compared to a loss of $1.7 million for the quarter ended January 24, 2016.

Supplemental Cash Flow Information

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

Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides revocable standby letters of credit totaling $4.0 million to guarantee obligations that may arise under worker compensation claims of an affiliated party. This potential obligation is not reflected in the Company s Consolidated Statements of Financial Position.

Table of Contents

New Accounting Pronouncements

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*. This topic converges the guidance within U.S. generally accepted accounting principles (GAAP) and international financial reporting standards and supersedes ASC 605, *Revenue Recognition*. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions which were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. On July 8, 2015, the FASB approved a one-year deferral of the effective date. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. The updated guidance is to be applied either retrospectively or by using a cumulative effect adjustment. Accordingly, the Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements with a focus on arrangements with customers.

In April 2015, the FASB updated the guidance within ASC 835, *Interest*. The update provides guidance on simplifying the presentation of debt issuance costs. The amendments require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company retrospectively adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

In May 2015, the FASB updated the guidance within ASC 820, *Fair Value Measurements and Disclosures*. The update provides guidance on the disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share (or its equivalent) as a practical expedient. The updated guidance is to be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

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

In March 2016, the FASB updated the guidance within ASC 718, *Compensation-Stock Compensation.* The update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year. Accordingly, the Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2018, and is currently assessing the impact on its consolidated financial statements.

In June 2016, the FASB updated the guidance within ASC 326, *Financial Instruments - Credit Losses*. The update provides guidance on the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. The updated guidance is to be applied on a modified-retrospective approach and is effective for fiscal years, and interim periods within

Table of Contents

those fiscal years, beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, and interim periods therein. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2016, the FASB updated the guidance within ASC 230, *Statement of Cash Flows.* The update makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted provided all amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently assessing the timing and impact of adopting the updated provisions.

In October 2016, the FASB updated the guidance within ASC 740, *Income Taxes*. The updated guidance requires the recognition of the income tax consequences of an intra-entity asset transfer, other than transfers of inventory, when the transfer occurs. For intra-entity transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The updated guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted only within the first interim period of a fiscal year. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the timing and impact of adopting the updated provisions.

In January 2017, the FASB updated the guidance within ASC 350, *Intangibles Goodwill and Other.* The updated guidance eliminates the second step of the two-step impairment test. The updated guidance modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An impairment charge should be made if a reporting unit s carrying amount exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. The updated guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The updated guidance is required to be adopted on a prospective basis. The Company is currently assessing the timing and impact of adopting the updated provisions.

NOTE B ACQUISITIONS

On May 26, 2016, the Company acquired Justin s, LLC (Justin s) for a preliminary purchase price of $280.9 million. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately $70.0 million. The purchase price is preliminary pending final purchase accounting adjustments, and was funded by the Company with cash on hand and by utilizing short-term financing. Primary assets acquired include goodwill of $186.4 million and intangibles of $89.9 million.

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

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

NOTE C **INVENTORIES**

Principal components of inventories are:

(in thousands)	January 29, 2017	October 30, 2016
Finished products	$ 533,893	$ 553,634
Raw materials and work-in-process	257,614	253,662
Materials and supplies	166,623	178,387
Total	$ 958,130	$ 985,683

Table of Contents

NOTE D GOODWILL AND INTANGIBLE ASSETS

The carrying amounts of goodwill for the quarter ended January 29, 2017, are presented in the table below. The reduction during the first quarter is due to the sale of Farmer John on January 3, 2017. See additional discussion regarding the Company s assets held for sale in Note E.

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International	Total
Balance as of October 30, 2016	$ 508,800	$ 584,443	$ 203,214	$ 373,782	$ 164,258	$ 1,834,497
Goodwill sold	-	(11,826)	-	-	-	(11,826)
Balance as of January 29, 2017	$ 508,800	$ 572,617	$ 203,214	$ 373,782	$ 164,258	$ 1,822,671

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below. The reduction during the first quarter is due to the sale of Farmer John.

	January 29, 2017		October 30, 2016	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	$ 85,440	$ (20,382)	$ 88,240	$ (20,737)
Formulas and recipes	1,950	(1,845)	1,950	(1,796)
Other intangibles	3,100	(1,485)	3,520	(1,677)
Total	$ 90,490	$ (23,712)	$ 93,710	$ (24,210)

Amortization expense was $2.1 million for the quarters ended January 29, 2017 and January 24, 2016.

Estimated annual amortization expense for the five fiscal years after October 30, 2016, is as follows:

(in millions)	
2017	$ 8.1
2018	7.6
2019	7.4
2020	7.4
2021	7.4

The carrying amounts for indefinite-lived intangible assets are presented in the table below. The reduction during the first quarter is due to the sale of Farmer John.

(in thousands)	January 29, 2017	October 30, 2016
Brands/tradenames/trademarks	$ 819,835	$ 825,774
Other intangibles	184	7,984
Total	$ 820,019	$ 833,758

NOTE E ASSETS HELD FOR SALE

At the end of fiscal year 2016, the Company was actively marketing Clougherty Packing, LLC, parent company of Farmer John and Saag s Specialty Meats, along with PFFJ, LLC, farm operations in California, Arizona, and Wyoming (Farmer John). Through this process, the Company identified the specific assets and liabilities to be sold and allocated goodwill based on the relative fair values of the assets held for sale and the assets that would be retained by the Company. In November 2016, the Company entered into an agreement for the sale and the transaction closed on January 3, 2017. The purchase price was $145 million in cash, pending final working capital adjustments. The assets held for sale were reported within the Company s Refrigerated Foods segment. The assets held for sale were not material to the Company s annual net sales, net earnings, or earnings per share.

Table of Contents

Amounts classified as assets and liabilities held for sale on October 30, 2016, were presented on the Company s Consolidated Statement of Financial Position within their respective accounts, and include the following:

Assets held for sale (in thousands)		
Current assets	$	80,861
Goodwill		12,703
Intangibles		14,321
Property, plant and equipment		74,812
Total assets held for sale	$	182,697
Liabilities held for sale (in thousands)		
Total current liabilities held for sale	$	44,066

NOTE F PENSION AND OTHER POST-RETIREMENT BENEFITS

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

	Pension Benefits Three Months Ended				Post-retirement Benefits Three Months Ended			
(in thousands)		January 29, 2017		January 24, 2016		January 29, 2017		January 24, 2016
Service cost	$	7,564	$	6,680	$	275	$	316
Interest cost		13,566		13,678		2,871		3,236
Expected return on plan assets		(22,734)		(21,677)		-		-
Amortization of prior service cost		(750)		(1,066)		(1,068)		(1,050)
Recognized actuarial loss		6,541		4,585		628		392
Net periodic cost	$	4,187	$	2,200	$	2,706	$	2,894

NOTE G DERIVATIVES AND HEDGING

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures contracts and swaps to manage the Company s exposure to price fluctuations in the commodities markets. The Company has determined 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 utilizes corn futures to offset price fluctuations in the Company s future direct grain purchases. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges at least quarterly. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain exposure beyond the next two upcoming fiscal years. As of January 29, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

	Volume	
Commodity	**January 29, 2017**	**October 30, 2016**
Corn	18.3 million bushels	22.4 million bushels

As of January 29, 2017, the Company has included in AOCL, hedging gains of $7.1 million (before tax) relating to these positions, compared to gains of $9.2 million (before tax) as of October 30, 2016. The Company expects to recognize the majority of these gains over the next 12 months.

Table of Contents

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of January 29, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

	Volume	
Commodity	**January 29, 2017**	**October 30, 2016**
Corn	3.6 million bushels	3.6 million bushels
Lean hogs	0.2 million cwt	0.2 million cwt

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

As of January 29, 2017, and October 30, 2016, the Company had the following outstanding futures and options contracts related to these programs:

	Volume	
Commodity	**January 29, 2017**	**October 30, 2016**
Corn	0.1 million bushels	4.0 million bushels
Soybean meal	-	11,000 tons

Fair Values: The fair values of the Company s derivative instruments (in thousands) as of January 29, 2017, and October 30, 2016, were as follows:

	Location on Consolidated Statements of Financial Position	**Fair Value** (1)	
		January 29, 2017	**October 30, 2016**
<u>Asset Derivatives:</u>			
Derivatives Designated as Hedges:			

Commodity contracts	Other current assets	$ (1,832)	$ (194)
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	1	144
Total Asset Derivatives		$ (1,831)	$ (50)

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

Table of Contents

Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the three months ended January 29, 2017, and January 24, 2016, were as follows:

Cash Flow Hedges:	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Three Months Ended January 29, 2017	January 24, 2016	Location on Consolidated Statements of Operations	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Three Months Ended January 29, 2017	January 24, 2016	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(4) Three Months Ended January 29, 2017	January 24, 2016
Commodity contracts	$ (646)	$ (2,848)	Cost of products sold	$ 1,469	$ (767)	$ -	$ 1

Fair Value Hedges:	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Three Months Ended January 29, 2017	January 24, 2016	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2)(5) Three Months Ended January 29, 2017	January 24, 2016
Commodity contracts	Cost of products sold	$ (54)	$ 1,242	$ -	$ (252)

Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Three Months Ended January 29, 2017	January 24, 2016
Commodity contracts	Cost of products sold	$ (228)	$ (480)

(1) Amounts represent gains or losses in AOCL before tax. See Note I Accumulated Other Comprehensive Loss or the Consolidated Statements of Comprehensive Income for the after-tax impact of these gains or losses on net earnings.

(2) There were no gains or losses excluded from the assessment of hedge effectiveness during the quarter.

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

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

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

NOTE H INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES

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

Investments in and receivables from affiliates consists of the following:

(in thousands)	Segment	% Owned	January 29, 2017	October 30, 2016
MegaMex Foods, LLC	Grocery Products	50%	$ 182,191	$ 180,437
Foreign Joint Ventures	International & Other	Various (26-40%)	61,677	59,153
Total			$ 243,868	$ 239,590

Table of Contents

Equity in earnings of affiliates consists of the following:

		Three Months Ended	
(in thousands)	Segment	January 29, 2017	January 24, 2016
MegaMex Foods, LLC	Grocery Products	$ 9,071	$ 7,205
Foreign Joint Ventures	International & Other	4,228	4,270
Total		$ 13,299	$ 11,475

Dividends received from affiliates for the three months ended January 29, 2017 were $2.5 million, compared to $5.0 million dollars of dividends received for the three months ended January 24, 2016.

The Company recognized a basis difference of $21.3 million associated with the formation of MegaMex Foods, LLC, of which $15.1 million is remaining as of January 29, 2017. This difference is being amortized through equity in earnings of affiliates.

NOTE I ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss are as follows:

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at October 30, 2016	$ (5,489)	$ (296,552)	$ 5,738	$ (296,303)
Unrecognized gains (losses):				
Gross	(7,847)	30	(646)	(8,463)
Tax effect	-	(11)	242	231
Reclassification into net earnings:				
Gross	-	5,321 (1)	(1,469) (2)	3,852
Tax effect	-	(2,007)	550	(1,457)
Net of tax amount	(7,847)	3,333	(1,323)	(5,837)
Balance at January 29, 2017	$ (13,336)	$ (293,219)	$ 4,415	$ (302,140)

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

(2) Included in cost of products