

SMITHFIELD FOODS INC
Form 10-Q
September 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 1, 2010

COMMISSION FILE NUMBER 1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street
Smithfield, Virginia 23430
(757) 365-3000

Virginia
(State of Incorporation)

52-0845861
(I.R.S. Employer Identification Number)

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

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Non-accelerated filer

Smaller reporting company

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

At August 30, 2010, 166,013,232 shares of the registrant's Common Stock (\$.50 par value per share) were outstanding.

SMITHFIELD FOODS, INC.
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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in millions, except per share data)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (unaudited) | |
| Sales | \$2,901.3 | \$2,715.3 |
| Cost of sales | 2,533.6 | 2,616.6 |
| Gross profit | 367.7 | 98.7 |
| Selling, general and administrative expenses | 201.0 | 183.8 |
| Equity in income of affiliates | (10.9) | (10.3) |
| Operating profit (loss) | 177.6 | (74.8) |
| Interest expense | 68.6 | 60.5 |
| Other loss | - | 7.4 |
| Income (loss) before income taxes | 109.0 | (142.7) |
| Income tax expense (benefit) | 32.7 | (35.0) |
| Net income (loss) | \$76.3 | \$(107.7) |
| | | |
| Net income (loss) per share: | | |
| Basic | \$.46 | \$(.75) |
| Diluted | \$.46 | \$(.75) |
| | | |
| Weighted average shares outstanding: | | |
| Basic | 166.0 | 143.6 |
| Diluted | 167.2 | 143.6 |

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in millions, except share data)

| | August 1, 2010 (unaudited) | May 2, 2010 |
|--|----------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$542.4 | \$451.2 |
| Accounts receivable, net | 673.4 | 621.5 |
| Inventories | 1,755.0 | 1,860.0 |
| Prepaid expenses and other current assets | 303.4 | 387.6 |
| Total current assets | 3,274.2 | 3,320.3 |
| Property, plant and equipment, net | 2,302.6 | 2,358.7 |
| Goodwill | 816.9 | 822.9 |
| Investments | 598.8 | 625.0 |
| Intangible assets, net | 388.5 | 389.6 |
| Other assets | 215.4 | 192.4 |
| Total assets | \$7,596.4 | \$7,708.9 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$33.6 | \$16.9 |
| Current portion of long-term debt and capital lease obligations | 120.0 | 72.8 |
| Accounts payable | 368.2 | 383.8 |
| Accrued expenses and other current liabilities | 583.8 | 718.4 |
| Total current liabilities | 1,105.6 | 1,191.9 |
| Long-term debt and capital lease obligations | 2,857.5 | 2,918.4 |
| Other liabilities | 829.8 | 838.4 |
| Redeemable noncontrolling interests | 2.0 | 2.0 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' equity: | | |
| Preferred stock, \$1.00 par value, 1,000,000 authorized shares | - | - |
| Common stock, \$.50 par value, 500,000,000 authorized shares; 166,013,232 and 165,995,732 issued and outstanding | 83.0 | 83.0 |
| Additional paid-in capital | 1,628.8 | 1,626.9 |
| Stock held in trust | (65.6) | (65.5) |
| Retained earnings | 1,615.0 | 1,538.7 |
| Accumulated other comprehensive loss | (462.2) | (427.5) |

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| | | |
|------------------------------|-----------|-----------|
| Total shareholders' equity | 2,799.0 | 2,755.6 |
| Noncontrolling interests | 2.5 | 2.6 |
| Total equity | 2,801.5 | 2,758.2 |
| Total liabilities and equity | \$7,596.4 | \$7,708.9 |

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in millions)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$76.3 | \$(107.7) |
| Adjustments to reconcile net cash flows from operating activities: | | |
| Equity in income of affiliates | (10.9) | (10.3) |
| Depreciation and amortization | 58.3 | 61.0 |
| Impairment of assets | 0.6 | 34.1 |
| Changes in operating assets and liabilities and other, net: | (21.6) | 89.4 |
| Net cash flows from operating activities | 102.7 | 66.5 |
| Cash flows from investing activities: | | |
| Capital expenditures | (30.8) | (30.4) |
| Other | 14.8 | 4.2 |
| Net cash flows from investing activities | (16.0) | (26.2) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | - | 604.3 |
| Net proceeds (repayments) on revolving credit facilities and notes payable | 28.2 | (134.8) |
| Principal payments on long-term debt and capital lease obligations | (23.7) | (75.9) |
| Proceeds from the issuance of common stock | 0.2 | - |
| Debt issuance costs | - | (48.1) |
| Net cash flows from financing activities | 4.7 | 345.5 |
| Effect of foreign exchange rate changes on cash | (0.2) | 1.8 |
| Net change in cash and cash equivalents | 91.2 | 387.6 |
| Cash and cash equivalents at beginning of period | 451.2 | 119.0 |
| Cash and cash equivalents at end of period | \$542.4 | \$506.6 |

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1: GENERAL

Smithfield Foods, Inc., together with its subsidiaries (the “Company,” “we,” “us” or “our”), is the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We conduct our operations through five reporting segments: Pork, International, Hog Production, Other and Corporate. In the first quarter of fiscal 2011, we moved certain operations from our Hog Production segment into our International segment. See Note 14—Segment Data for information on these changes.

You should read these statements in conjunction with the audited consolidated financial statements and the related notes which are included in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010. The enclosed interim consolidated condensed financial information is unaudited. The information reflects all normal recurring adjustments which we believe are necessary to present fairly the financial position and results of operations for all periods included.

The three months ended August 1, 2010 correspond to the first quarter of fiscal 2011 and the three months ended August 2, 2009 correspond to the first quarter of fiscal 2010. Certain prior year amounts have changed to conform to current year presentations.

NOTE 2: ACCOUNTING CHANGES AND NEW ACCOUNTING GUIDANCE

In June 2009 and December 2009, the Financial Accounting Standards Board (the FASB) issued guidance requiring an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This guidance requires an ongoing assessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. We adopted this guidance in the first quarter of fiscal year 2011 and determined that it had no impact on our consolidated condensed financial statements.

NOTE 3: INVENTORIES

Inventories consist of the following:

| | August 1, 2010 | May 2, 2010 |
|--------------------------|-------------------|----------------|
| | (in millions) | |
| Live hogs | \$841.6 | \$853.5 |
| Fresh and packaged meats | 707.2 | 786.0 |
| Manufacturing supplies | 66.9 | 70.5 |
| Grains and other | 139.3 | 150.0 |
| Total inventories | \$1,755.0 | \$1,860.0 |

NOTE 4: DERIVATIVES FINANCIAL INSTRUMENTS

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn and soybean meal, which are actively traded on commodity exchanges. We hedge these commodities when we determine

conditions are appropriate to mitigate price risk. While this hedging may limit our ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. We attempt to closely match the commodity contract terms with the hedged item. We also enter into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and foreign exchange forward contracts to hedge certain exposures to fluctuating foreign currency rates.

We record all derivatives in the balance sheet as either assets or liabilities at fair value. Accounting for changes in the fair value of a derivative depends on whether it qualifies and has been designated as part of a hedging relationship. For derivatives that qualify and have been designated as hedges for accounting purposes, changes in fair value have no net impact on earnings, to the extent the derivative is considered perfectly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings (commonly referred to as the “hedge accounting” method). For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings (commonly referred to as the “mark-to-market” method). We may elect either method of accounting for our derivative portfolio, assuming all the necessary requirements are met. We have in the past, and will in the future, avail ourselves of either acceptable method. We believe all of our derivative instruments represent economic hedges against changes in prices and rates, regardless of their designation for accounting purposes.

We do not offset the fair value of derivative instruments with cash collateral held with or received from the same counterparty under a master netting arrangement. Changes in commodity prices could have a significant impact on cash deposit requirements under our broker and counterparty agreements. As of August 1, 2010, prepaid expenses and other current assets included \$65.3 million representing cash on deposit with brokers to cover losses on our open derivative instruments. We have reviewed our derivative contracts and have determined that they do not contain credit contingent features which would require us to post additional collateral if we did not maintain a credit rating equivalent to what was in place at the time the contracts were entered into.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties under financial instruments. Although our counterparties primarily consist of financial institutions that are investment grade, there is still a possibility that one or more of these companies could default. However, a majority of our financial instruments are exchange traded futures contracts held with brokers and counterparties with whom we maintain margin accounts that are settled on a daily basis, and therefore our credit risk is not significant. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. As of August 1, 2010, we had credit exposure of \$6.1 million on non-exchange traded derivative contracts, excluding the effects of netting arrangements. As a result of netting arrangements, our credit exposure was reduced to \$1.8 million. No significant concentrations of credit risk existed as of August 1, 2010.

The size and mix of our derivative portfolio varies from time to time based upon our analysis of current and future market conditions. The following table presents the fair values of our open derivative financial instruments in the consolidated condensed balance sheets on a gross basis. All grain contracts, livestock contracts and foreign exchange contracts are recorded in prepaid expenses and other current assets or accrued expenses and other current liabilities within the consolidated condensed balance sheets, as appropriate. Interest rate contracts are recorded in accrued expenses and other current liabilities or other liabilities, as appropriate.

| | Assets | | Liabilities | |
|--|-------------------|----------------|-------------------|----------------|
| | August 1, 2010 | May 2, 2010 | August 1, 2010 | May 2, 2010 |
| | (in millions) | | (in millions) | |
| Derivatives using the "hedge accounting" method: | | | | |
| Grain contracts | \$27.6 | \$11.5 | \$1.2 | \$3.4 |
| Livestock contracts | - | - | 23.0 | 40.8 |
| Interest rate contracts | - | - | 7.2 | 8.1 |
| Foreign exchange contracts | 0.5 | 3.0 | 5.5 | - |
| Total | 28.1 | 14.5 | 36.9 | 52.3 |
| Derivatives using the "mark-to-market" method: | | | | |
| Grain contracts | 5.6 | 5.5 | 15.9 | 6.5 |
| Livestock contracts | 4.5 | 5.8 | 24.8 | 87.6 |
| Energy contracts | - | - | 0.9 | 4.0 |
| Foreign exchange contracts | 0.1 | 0.5 | 2.1 | 0.2 |
| Total | 10.2 | 11.8 | 43.7 | 98.3 |
| Total fair value of derivative instruments | \$38.3 | \$26.3 | \$80.6 | \$150.6 |

Hedge Accounting Method

Cash Flow Hedges

We enter into derivative instruments, such as futures, swaps and options contracts, to manage our exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted sale of live hogs and the forecasted purchase of corn and soybean meal. In addition, we enter into interest rate swaps to manage our exposure to changes in interest rates associated with our variable interest rate debt, and we enter into foreign exchange contracts to manage our exposure to the variability in expected future cash flows attributable to changes in foreign exchange rates associated with the forecasted purchase or sale of assets denominated in foreign currencies. We generally do not hedge anticipated transactions beyond twelve months.

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During the three months ended August 1, 2010, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|----------------------|-------------|-------------|---------|
| Commodities: | | | |
| Corn | 20,447,900 | 50,190,000 | Bushels |
| Soybean meal | 403,031 | 516,000 | Tons |
| Lean hogs | 182,640,000 | 226,600,000 | Pounds |
| | | | U.S. |
| Interest rate | 200,000,000 | 200,000,000 | Dollars |
| | | | U.S. |
| Foreign currency (1) | 58,755,092 | 89,021,606 | Dollars |

(1) Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

When cash flow hedge accounting is applied, derivative gains or losses from these cash flow hedges are recognized as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Derivative gains and losses, when reclassified into earnings, are recorded in cost of sales for grain contracts, sales for lean hog contracts, interest expense for interest rate contracts, and selling, general and administrative expenses for foreign exchange contracts.

The following table presents the effects on our consolidated condensed financial statements of pre-tax gains and losses on derivative instruments designated in cash flow hedging relationships for the fiscal periods indicated:

| | Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) Three Months Ended | | Loss Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion) Three Months Ended | | Loss Recognized in Earnings on Derivative (Ineffective Portion) Three Months Ended | |
|----------------------------|---|-------------------|---|-------------------|---|-------------------|
| | August 1, 2010 | August 2, 2009 | August 1, 2010 | August 2, 2009 | August 1, 2010 | August 2, 2009 |
| | (in millions) | | (in millions) | | (in millions) | |
| Commodity contracts: | | | | | | |
| Grain contracts | \$14.8 | \$(20.2) | \$(4.0) | \$(59.5) | \$(0.2) | \$(2.5) |
| Lean hog contracts | (5.0) | 8.5 | (10.5) | - | (0.3) | - |
| Interest rate contracts | (0.5) | 2.7 | (1.1) | (1.5) | - | - |
| Foreign exchange contracts | (5.6) | 6.1 | (1.9) | (7.5) | - | - |
| Total | \$3.7 | \$(2.9) | \$(17.5) | \$(68.5) | \$(0.5) | \$(2.5) |

For the fiscal periods presented, foreign exchange contracts were determined to be highly effective. We have excluded from the assessment of effectiveness differences between spot and forward rates, which we have determined to be immaterial.

As of August 1, 2010, there were deferred net losses of \$13.3 million, net of tax of \$6.3 million, in accumulated other comprehensive loss. As of May 2, 2010, there were deferred net losses of \$24.5 million, net of tax of \$15.5 million, in accumulated other comprehensive loss. We expect to reclassify \$19.4 million (\$11.8 million net of tax) of the deferred net losses on closed commodity contracts into earnings within the next twelve months. Because the value of open

contracts is subject to change, we are unable to estimate the gains or losses to be reclassified into earnings within the next twelve months.

Fair Value Hedges

We enter into derivative instruments (primarily futures contracts) that are designed to hedge changes in the fair value of live hog inventories and firm commitments to buy grains. We also enter into interest rate swaps to manage interest rate risk associated with our fixed rate borrowings. When fair value hedge accounting is applied, derivative gains and losses from these fair value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. The gains or losses on the derivative instruments and the offsetting losses or gains on the related hedged items are recorded in cost of sales for commodity contracts and interest expense for interest rate contracts.

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During the three months ended August 1, 2010, the range of notional volumes associated with open derivative instruments designated in fair value hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|--------------|-------------|-------------|---------|
| Commodities: | | | |
| Corn | 2,495,000 | 5,330,000 | Bushels |
| Lean hogs | 129,720,000 | 431,440,000 | Pounds |

(1) Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

The following table presents the effects on our consolidated condensed statements of income of gains and losses on derivative instruments designated in fair value hedging relationships and the related hedged items for the fiscal periods indicated:

| | Gain (Loss) Recognized in Earnings on Derivative Three Months Ended | | Gain (Loss) Recognized in Earnings on Related Hedged Item Three Months Ended | |
|----------------------------|---|-------------------|---|-------------------|
| | August 1, 2010 | August 2, 2009 | August 1, 2010 | August 2, 2009 |
| | (in millions) | | (in millions) | |
| Commodity contracts | \$5.0 | \$8.1 | \$3.9 | \$(7.8) |
| Interest rate contracts | - | 0.6 | - | (0.6) |
| Foreign exchange contracts | - | 1.1 | - | (0.5) |
| Total | \$5.0 | \$9.8 | \$3.9 | \$(8.9) |

During the first quarter of fiscal 2011, we amortized into earnings \$22.1 million of losses on commodity derivative contracts as the underlying cash transactions affected earnings.

Mark-to-Market Method

Derivative instruments that are not designated as a hedge, have been de-designated from a hedging relationship, or do not meet the criteria for hedge accounting are marked-to-market with the unrealized gains and losses together with actual realized gains and losses from closed contracts being recognized in current period earnings. Under the mark-to-market method, gains and losses are recorded in cost of sales for commodity contracts, and selling, general and administrative expenses for interest rate contracts and foreign exchange contracts.

During the three months ended August 1, 2010, the range of notional volumes associated with open derivative instruments using the "mark-to-market" method was as follows:

| | Minimum | Maximum | Metric |
|--------------|-------------|---------------|---------|
| Commodities: | | | |
| Lean hogs | 277,920,000 | 1,011,960,000 | Pounds |
| Corn | 1,490,000 | 45,643,300 | Bushels |
| Soybean meal | 82,500 | 335,834 | Tons |
| Soybeans | 115,000 | 225,000 | Bushels |
| Wheat | - | 85,000 | Bushels |
| Live cattle | 760,000 | 1,400,000 | Pounds |

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| | | | |
|----------------------|------------|-------------|-------------------|
| Pork bellies | - | 2,040,000 | Pounds Million |
| Natural gas | 2,040,000 | 2,490,000 | BTU U.S. |
| Foreign currency (1) | 79,383,852 | 114,175,772 | Dollars |

(1) Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

The following table presents the amount of gains (losses) recognized in the consolidated condensed statements of income on derivative instruments using the “mark-to-market” method by type of derivative contract for the fiscal periods indicated:

| | Three Months Ended | |
|----------------------------|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Commodity contracts | \$36.2 | \$12.1 |
| Foreign exchange contracts | 2.4 | (6.2) |
| Total | \$38.6 | \$5.9 |

The table above reflects gains and losses from both open and closed contracts including, among other things, gains and losses related to contracts designed to hedge price movements that occur entirely within a quarter. The table includes amounts for both realized and unrealized gains and losses. The table is not, therefore, a simple representation of unrealized gains and losses recognized in the income statement during any period presented.

NOTE 5: PORK RESTRUCTURING AND HOG PRODUCTION COST SAVINGS INITIATIVE

Pork Restructuring

In February 2009 (fiscal 2009), we announced a plan to consolidate and streamline the corporate structure and manufacturing operations of our Pork segment (the Restructuring Plan). The plan included the closure of six plants, the last of which was closed in February 2010 (fiscal 2010). This restructuring is intended to make us more competitive by improving operating efficiencies and increasing plant utilization. As of August 1, 2010 (fiscal 2011), the Restructuring Plan was substantially complete with cumulative restructuring and impairment charges of \$107.2 million. In the first quarter of fiscal 2011, we incurred charges totaling \$1.7 million and anticipate incurring approximately \$2 million of charges in the second quarter of fiscal 2011. As of August 1, 2010, the balance of accrued expenses on the consolidated condensed balance sheet was \$9.0 million.

Hog Production Cost Savings Initiative

In the fourth quarter of fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative). The plan includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, termination of certain high cost, third-party hog grower contracts and breeding stock sourcing contracts, as well as a number of other cost reduction activities. Certain of the activities associated with the Cost Savings Initiative are expected to occur over a two to three-year period in order to allow for the successful transformation of farms while minimizing disruption of supply.

All of the charges presented above have been recorded in cost of sales in the Hog Production segment. The following table summarizes the balance of accrued expenses, the cumulative expense incurred to date and the expected remaining expenses to be incurred related to the Cost Savings Initiative by major type of cost.

| Cost savings activities: | Accrued | Current | Payments | Accrued | Estimated | |
|--------------------------|----------------|-------------------|----------|-------------------|-------------------------------|-----------|
| | Balance | | | Balance | | Remaining |
| | May 2, 2010 | Period Expense | | August 1, 2010 | Cumulative Expense-to-Date | Expense |
| | (in millions) | | | | | |
| | | | | | | |

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| | | | | | | |
|---|--------|--------|-----------|--------|--------|---------|
| Contract terminations | \$ 1.8 | \$ - | \$ (0.2) | \$ 1.6 | \$ 2.8 | \$ 22.9 |
| Other associated costs | - | 0.2 | (0.2) | - | 0.2 | 9.2 |
| Total cost savings activities | \$ 1.8 | 0.2 | \$ (0.4) | \$ 1.6 | 3.0 | 32.1 |
| Other charges: | | | | | | |
| Accelerated depreciation | | 0.3 | | | 4.1 | 1.8 |
| Impairment | | - | | | 2.5 | - |
| Total other charges | | 0.3 | | | 6.6 | 1.8 |
| Total cost savings activities and other charges | | \$ 0.5 | | | \$ 9.6 | \$ 33.9 |

NOTE 6: INVESTMENTS

Investments consist of the following:

| Equity Investment | % Owned | August 1, 2010 | May 2, 2010 |
|-------------------------------------|---------|-------------------|----------------|
| (in millions) | | | |
| Campofrío Food Group (CFG) | 37% | \$ 387.8 | \$ 417.3 |
| Butterball, LLC (Butterball) | 49% | 101.1 | 99.8 |
| Mexican joint ventures | 50% | 76.6 | 75.1 |
| All other equity method investments | Various | 33.3 | 32.8 |
| Total investments | | \$ 598.8 | \$ 625.0 |

Equity in (income) loss of affiliates consists of the following:

| Equity Investment | Segment | Three Months Ended | |
|-------------------------------------|---------------|--------------------|-------------------|
| | | August 1, 2010 | August 2, 2009 |
| (in millions) | | | |
| CFG (1) | International | \$ (3.2) | \$ (3.6) |
| Butterball | Other | (1.3) | 0.6 |
| Mexican joint ventures | International | (4.9) | (5.6) |
| All other equity method investments | Various | (1.5) | (1.7) |
| Equity in income of affiliates | | \$ (10.9) | \$ (10.3) |

(1)CFG prepares its financial statements in accordance with International Financial Reporting Standards. Our share of CFG's results reflects U.S. GAAP adjustments and thus, there may be differences between the amounts we report for CFG and the amounts reported by CFG.

As of August 1, 2010, we held 37,811,302 shares of CFG common stock. The stock was valued at €7.28 per share (approximately \$9.48 per share) on the close of the last day of trading before the end of our first quarter of fiscal 2011. Based on the stock price and foreign exchange rate as of August 1, 2010, the carrying value of our investment in CFG, net of the pre-tax cumulative translation adjustment, exceeded the market value of the underlying securities by \$58.5 million. We have analyzed our investment in CFG for impairment and have determined that the fair value of our investment exceeded the carrying value as of August 1, 2010. We have estimated the fair value based on the historical prices and trading volumes of the stock, the impact of the movement in foreign currency translation and the premium applied for our noncontrolling interest in CFG. Based on our assessment, no impairment was recorded.

NOTE 7: DEBT

Our various debt agreements contain covenants that limit additional borrowings, acquisitions, dispositions, leasing of assets and payments of dividends to shareholders, among other restrictions.

Our senior unsecured and secured notes limit our ability to incur additional indebtedness, subject to certain exceptions, when our interest coverage ratio is, or after incurring additional indebtedness would be, less than 2.0 to 1.0 (the Incurrence Test). As of August 1, 2010, we did not meet the Incurrence Test. Due to the trailing twelve month nature of the Incurrence Test, we do not expect to meet the Incurrence Test again until the second quarter of fiscal 2011 at the earliest. The Incurrence Test is not a maintenance covenant and our failure to meet the Incurrence Test is

not a default. In addition to limiting our ability to incur additional indebtedness, our failure to meet the Incurrence Test restricts us from engaging in certain other activities, including paying cash dividends, repurchasing our common stock and making certain investments. However, our failure to meet the Incurrence Test does not preclude us from borrowing on our asset-based revolving credit agreement that supports short-term funding needs and letters of credit (ABL Credit Facility) or from refinancing existing indebtedness. Therefore we do not expect the limitations resulting from our inability to satisfy the Incurrence Test to have a material adverse effect on our business or liquidity.

Our ABL Credit Facility contains a covenant requiring us to maintain a fixed charges coverage ratio of at least 1.1 to 1.0 when the amounts available for borrowing under the ABL Credit Facility are less than the greater of \$120 million or 15% of the total commitments under the facility (currently \$1.0 billion). We currently are not subject to this restriction and we do not anticipate that our borrowing availability will decline below those thresholds during fiscal 2011, although there can be no assurance that this will not occur because our borrowing availability depends upon our borrowing base calculated for purposes of that facility.

NOTE 8: GUARANTEES

As part of our business, we are a party to various financial guarantees and other commitments as described below. These arrangements involve elements of performance and credit risk that are not included in the consolidated condensed balance sheets. We could become liable in connection with these obligations depending on the performance of the guaranteed party or the occurrence of future events that we are unable to predict. If we consider it probable that we will become responsible for an obligation, we will record the liability on our consolidated balance sheet.

We (together with our joint venture partners) guarantee financial obligations of certain unconsolidated joint ventures. The financial obligations are: up to \$76.8 million of debt borrowed by Agroindustrial del Noroeste (Norson), of which \$66.3 million was outstanding as of August 1, 2010, and up to \$3.5 million of liabilities with respect to currency swaps executed by another of our unconsolidated Mexican joint ventures, Granjas Carroll de Mexico (Granjas). The covenants in the guarantee relating to Norson's debt incorporate our covenants under the ABL Credit Facility. In addition, we continue to guarantee \$13.3 million of leases that were transferred to JBS in connection with the sale of Smithfield Beef. Some of these lease guarantees may be released in the near future and others may remain in place until the leases expire through February 2022.

NOTE 9: INCOME TAXES

Our effective tax rate was 30% and 25% for the first quarter of fiscal 2011 and 2010, respectively. The variation in the effective tax rate during these periods was due primarily to the mix of foreign earnings (which have lower effective tax rates) and domestic earnings in fiscal 2011 compared to fiscal 2010, the benefit of the Federal manufacturer's deduction and the forecasted utilization of foreign tax credits in fiscal 2011.

NOTE 10: PENSION PLANS

The components of net periodic pension cost consist of:

| | Three Months Ended | |
|--------------------------------|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Service cost | \$9.2 | \$5.6 |
| Interest cost | 18.8 | 18.4 |
| Expected return on plan assets | (16.0) | (12.3) |
| Net amortization | 8.5 | 5.1 |
| Net periodic pension cost | \$20.5 | \$16.8 |

NOTE 11: SHAREHOLDERS' EQUITY

Stock Options

In the first quarter of fiscal 2011, we issued 17,500 shares of common stock upon the exercise of stock options. We issued 160,100 shares of common stock upon exercise of stock options in fiscal 2010. As of August 1, 2010, 2,636,270 stock options were outstanding.

Performance Share Units

In June 2010 (fiscal 2011), we granted 370,000 performance share units under the 2008 Incentive Compensation Plan (the Incentive Plan). Each performance share unit represents and has a value equal to one share of our common stock. Payment of the vested performance share units generally will be in our common stock. The performance share units will vest ratably over a two-year service period provided that the Company achieves a certain earnings target in either fiscal 2011 or fiscal 2012. Also, in June 2010 (fiscal 2011), we granted a number of performance share units to certain employees in our Pork Group. The actual number of performance share units is based on the achievement of certain sales volume growth targets for the Pork segment and will range from aggregate awards of 105,000 to 175,000 performance share units provided the Company achieves a certain earnings target for fiscal 2011. The fair value of the performance share units was determined based on our closing stock price on the date of grant of \$17.57. The fair value is being recognized over the expected life of each award. If the expected life of each award is inconsistent with the actual vesting period, for example, because the earnings target is met in a period that differs from our expectation, then compensation expense will be adjusted prospectively to reflect the change in the expected life of the award.

We granted 722,000 performance share units in fiscal 2010. The maximum number of performance share units outstanding as of August 1, 2010 was 1,427,000.

Comprehensive Income

The components of comprehensive income (loss), net of tax, consist of:

| | Three Months Ended | |
|-----------------------------------|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Net income (loss) | \$76.3 | \$(107.7) |
| Hedge accounting | 11.3 | 45.8 |
| Foreign currency translation | (51.3) | 46.8 |
| Pension accounting | 5.3 | 2.5 |
| Total comprehensive income (loss) | \$41.6 | \$(12.6) |

NOTE 12: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are required to consider and reflect the assumptions of market participants in fair value calculations. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, both of the reporting entity (for liabilities) and of the counterparty (for assets).

We use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The FASB has established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

§ Level 1—quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.

§ Level 2—observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

§ Level 3—unobservable for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). Financial assets and liabilities have been classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were measured at fair value on a recurring basis as of August 1, 2010.

| | Fair Value Measurements | Level 1 | Level 2 | Level 3 |
|----------------------------|----------------------------|-----------------|----------------|-------------|
| | | (in millions) | | |
| Assets | | | | |
| Derivatives: | | | | |
| Commodity contracts | \$ 1.7 | \$ - | \$ 1.7 | \$ - |
| Foreign exchange contracts | 0.6 | - | 0.6 | - |
| Money market fund | 430.1 | 430.1 | - | - |
| Insurance contracts | 40.7 | 40.7 | - | - |
| Total | \$ 473.1 | \$ 470.8 | \$ 2.3 | \$ - |
| Liabilities | | | | |
| Derivatives: | | | | |
| Commodity contracts | \$ 29.8 | \$ 29.5 | \$ 0.3 | \$ - |
| Interest rate contracts | 7.2 | - | 7.2 | - |
| Foreign exchange contracts | 7.6 | - | 7.6 | - |
| Total | \$ 44.6 | \$ 29.5 | \$ 15.1 | \$ - |

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were measured at fair value on a recurring basis as of May 2, 2010.

| | Fair Value Measurements | Level 1 | Level 2 | Level 3 |
|----------------------------|----------------------------|----------------|---------------|------------|
| | | (in millions) | | |
| Assets | | | | |
| Derivatives: | | | | |
| Foreign exchange contracts | \$3.5 | \$- | \$3.5 | \$- |
| Money market fund | 325.4 | 325.4 | - | - |
| Insurance contracts | 32.5 | 32.5 | - | - |
| Total | \$361.4 | \$357.9 | \$3.5 | \$- |
| Liabilities | | | | |
| Derivatives: | | | | |
| Commodity contracts | \$119.5 | \$112.2 | \$7.3 | \$- |
| Interest rate contracts | 8.1 | - | 8.1 | - |
| Foreign exchange contracts | 0.2 | - | 0.2 | - |
| Total | \$127.8 | \$112.2 | \$15.6 | \$- |

When available, we use quoted market prices to determine fair value and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market-based inputs (i.e., Bloomberg and commodity exchanges) to calculate fair value, in which case the measurements are classified within Level 2. When quoted market prices or observable market-based inputs are unavailable, or when our fair value measurements incorporate significant unobservable inputs, we would classify such measurements within Level 3.

We invest our cash in an overnight money market fund, which is treated as a trading security with the unrealized gains recorded in earnings.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment.

In fiscal 2011 and fiscal 2010, we wrote down certain assets to their estimated fair values. Certain of these assets have since been sold. The fair value of the remaining assets, which consist primarily of property, plant and equipment, was determined to be approximately \$50.8 million as of August 1, 2010 and May 2, 2010. The fair value measurements of these assets were determined using relevant market data based on recent transactions for similar assets and third party estimates, which we classify as Level 2 inputs. Fair values were also determined using valuation techniques, which incorporate unobservable inputs that reflect our own assumptions regarding how market participants would price the assets, which we classify as Level 3 inputs.

Other Financial Instruments

We determine the fair value of public debt using quoted market prices. We value all other debt using discounted cash flow techniques at estimated market prices for similar issues. The following table presents the fair value and carrying value of long-term debt, including the current portion of long-term debt as of August 1, 2010 and May 2, 2010.

| | August 1, 2010 | | May 2, 2010 | |
|---|----------------|----------------|-------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| | (in millions) | | | |
| Long-term debt, including current portion | \$3,110.8 | \$2,949.7 | \$3,229.3 | \$2,963.0 |

The carrying amounts of cash and cash equivalents, accounts receivable, notes payable and accounts payable approximate their fair values because of the relatively short-term maturity of these instruments.

NOTE 13: CONTINGENCIES

Insurance Recoveries

In July 2009 (fiscal 2010), a fire occurred at the primary manufacturing facility of our subsidiary, Patrick Cudahy, Incorporated (Patrick Cudahy), in Cudahy, WI. The fire damaged a portion of the facility's production space and required the temporary cessation of operations, but did not consume the entire facility. Shortly after the fire, we resumed production activities in undamaged portions of the plant, including the distribution center, and took steps to address the supply needs for Patrick Cudahy products by shifting production to other Company and third-party facilities.

We maintain comprehensive general liability and property insurance, including business interruption insurance, with loss limits that we believe will provide substantial and broad coverage for the losses arising from this accident. We are working with our insurance carrier to determine the extent of loss. We received advances totaling \$70.0 million toward the ultimate settlement in the final three quarters of fiscal 2010.

In the first quarter of fiscal 2011, we received an additional \$5.5 million in proceeds. The receipt of these additional proceeds was applied against out-of-pocket costs and other losses incurred as a result of the fire. Therefore, the resulting impact of the fire on our consolidated condensed statement of income was insignificant for all periods presented. The magnitude and timing of the ultimate settlement is currently unknown. However, we expect the level of insurance proceeds to fully cover the costs and losses incurred from the fire.

Litigation

There have been no significant developments regarding the litigation disclosed in Note 18 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010, nor have any

significant new matters arisen during fiscal 2011.

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NOTE 14: SEGMENT DATA

We conduct our operations through five reportable segments: Pork, International, Hog Production, Other and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments.

The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Hog Production segment consists of our hog production operations located in the U.S. The Other segment is comprised of our turkey production operations, our 49% interest in Butterball, and through the first quarter of fiscal 2010, our live cattle operations. The Corporate segment provides management and administrative services to support our other segments.

Prior to the first quarter of fiscal 2011, our hog production operations in Poland and Romania and our interest in hog production operations in Mexico were included in our Hog Production segment. In the first quarter of fiscal 2011, these operations were moved into our International segment to more appropriately align our operating segments with the way our chief operating decision maker (CODM) now assesses performance of these segments and allocates resources to these segments. The fiscal 2010 results presented below have been restated to reflect this change in our reportable segments.

The following table presents sales and operating profit (loss) by segment for the fiscal periods indicated:

| | Three Months Ended | |
|--------------------------------------|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Sales: | | |
| Segment sales— | | |
| Pork | \$ 2,413.5 | \$ 2,251.8 |
| Hog Production | 648.3 | 476.4 |
| International | 316.3 | 294.4 |
| Other | 30.4 | 71.2 |
| Total segment sales | 3,408.5 | 3,093.8 |
| Intersegment sales— | | |
| Pork | (7.5) | (8.4) |
| Hog Production | (490.1) | (362.0) |
| International | (9.6) | (8.1) |
| Total intersegment sales | (507.2) | (378.5) |
| Consolidated sales | \$ 2,901.3 | \$ 2,715.3 |
| Operating profit (loss): | | |
| Pork | \$ 113.3 | \$ 101.0 |
| Hog Production | 63.8 | (180.2) |
| International | 24.5 | 25.4 |
| Other | 1.2 | (4.6) |
| Corporate | (25.2) | (16.4) |
| Consolidated operating profit (loss) | \$ 177.6 | \$ (74.8) |

NOTE 15: SUBSEQUENT EVENT

In August 2010 (fiscal 2011) and through September 8, 2010, we repurchased a portion of our senior unsecured notes due August 2011 for \$71.3 million. We have classified the carrying amount of these notes totaling \$69.4 million within current portion of long-term debt and capital lease obligations on the consolidated condensed balance sheet as of August 1, 2010. A loss of approximately \$1.9 million on the repurchase of this debt will be recognized in the second quarter of fiscal 2011. We anticipate interest savings of approximately \$2.8 million through the original maturity date of these notes as a result of these repurchases.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following information in conjunction with the unaudited consolidated condensed financial statements and the related notes in this Quarterly Report and the audited financial statements and the related notes as well as Management's Discussion and Analysis of Financial Condition and Results of Operation contained in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010.

Unless otherwise stated, the amounts presented in the following discussion are based on continuing operations for all fiscal periods included. Certain prior year amounts have been reclassified to conform to current year presentations.

EXECUTIVE OVERVIEW

We are the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We operate in a cyclical industry and our results are significantly affected by fluctuations in commodity prices for livestock (primarily hogs) and grains. Some of the factors that we believe are critical to the success of our business are our ability to:

- § maintain and expand market share, particularly in packaged meats,
- § develop and maintain strong customer relationships,
- § continually innovate and differentiate our products,
- § manage risk in volatile commodities markets, and
- § maintain our position as a low cost producer of live hogs, fresh pork and packaged meats.

The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Hog Production segment consists of our hog production operations located in the U.S. The Other segment is comprised of our turkey production operations, our 49% interest in Butterball, and through the first quarter of fiscal 2010, our live cattle operations. The Corporate segment provides management and administrative services to support our other segments.

Prior to the first quarter of fiscal 2011, our hog production operations in Poland and Romania and our interest in hog production operations in Mexico were included in our Hog Production segment. In the first quarter of fiscal 2011, these operations were moved into our International segment to more appropriately align our operating segments with the way our chief operating decision maker (CODM) now assesses performance of these segments and allocates resources to these segments. The fiscal 2010 results presented below have been restated to reflect this change in our reportable segments.

First Quarter of Fiscal 2011 Summary

Net income was \$76.3 million, or \$.46 per diluted share, in the first quarter of fiscal 2011, compared to a net loss of \$107.7 million, or \$(.75) per diluted share, in the same quarter last year. The following significant factors impacted first quarter of fiscal 2011 results compared to the first quarter of fiscal 2010:

§ Pork segment operating profit increased to \$113.3 million, the fourth consecutive year of record first quarter results, driven by substantially higher fresh pork market prices.

§ International segment operating profit was relatively consistent with prior year results.

§ Hog Production segment operating profit increased \$244.0 million due to a substantially higher meat values and a decrease in raising costs.

§ Other segment operating profit was higher due to improved results at Butterball and lower feed costs in our turkey growout operations.

Outlook

The commodity markets affecting our business are extremely volatile and fluctuate on a daily basis. In this erratic and unpredictable operating environment, it is very difficult to make meaningful forecasts of industry trends and conditions. The outlook statements that follow must be viewed in this context.

§ Pork—Despite tight hog supplies and high live hog prices, which typically place pressure on fresh pork margins, we achieved very solid processing margins in the first quarter of fiscal 2011. As we enter the second quarter, fundamentals in the fresh pork complex are very strong. The segment should benefit from lower industry slaughter levels and relatively low protein freezer stocks. Accordingly, we remain optimistic about our fresh pork performance moving into the balance of fiscal 2011. We expect export volumes to remain solid. Healthy levels of export demand will provide additional domestic price support and help the overall fresh pork complex.

Pricing discipline, rationalization of low margin business, lower raw material costs and the benefits of the Restructuring Plan (as defined below) pushed packaged meats profits to record highs in fiscal 2010. In the first quarter of fiscal 2011, margins retreated from fiscal 2010's record highs, but still remained historically strong. For the balance of fiscal 2011, we expect our packaged meats business will continue to be solidly profitable, notwithstanding comparatively higher raw material costs associated with higher live hog prices. Margins are still expected to be strong in historical terms. We expect margins in this end of the business to average in excess of \$.10 per pound.

In summary, we are optimistic about the Pork segment for the balance of fiscal 2011. We expect the actions we have taken on the sales, operating and restructuring fronts will support segment profitability. With the Restructuring Plan largely completed, we are re-focusing our efforts on sales and marketing initiatives designed to drive profitable top line growth.

§ International—We continue to be pleased with the performance of our international meat operations, especially in Poland where we had record profits in fiscal 2010 despite very high live hog prices. We expect our international meat operations to continue improving their operating performance as we move through fiscal 2011. We also expect a positive contribution from our investment in CFG, as defined below. However, CFG will be operating in an adverse environment of high unemployment and recessionary conditions across Western Europe, which may hinder its ability to produce good results.

On the international live production front, our wholly-owned live production operations in Poland, Romania and Mexico performed well in fiscal 2010. As we move through fiscal 2011, we expect continued positive contributions from our live swine operations in Poland and Mexico. We also expect a net positive contribution from our Romanian farms for the balance of the year, as anticipated production and productivity increases offset a loss of government subsidies in that country.

§ Hog Production—Finally, in the first quarter, after a considerable and extended period of sizable losses in the hog production industry, the cycle has turned and the environment has improved significantly. Modest contractions in the U.S. sow herd contributed to tightened supplies which, in turn, has resulted in higher live hog market prices. We do not foresee significant herd expansion on the horizon, which should help stabilize prices at healthier levels than fiscal 2010. Live production fundamentals appear to be favorable for the foreseeable future.

Our domestic raising costs spiked to all-time highs in the second quarter of fiscal 2009, reaching a quarterly average of \$63 per hundredweight. Since that time, raising costs have moderated substantially to the mid-\$50's per hundredweight. While we may see some seasonal moderation, we expect raising costs will remain in the mid-\$50's per hundredweight throughout fiscal 2011. Beyond that, we have also developed a plan, described more fully below, to improve our long-term cost structure. We expect the cost savings plan will reduce our base raising costs by

approximately \$2 per hundredweight. However, the plan may take several years to complete before the benefits are fully realized.

Livestock producers continue to feel the negative impacts of the current ethanol policy in the United States. Currently, it is estimated that 30% of the U.S corn crop is diverted from livestock feed and other consumer products to the ethanol industry. Although we are encouraged by the EPA's recent announcement to delay its decision on the ethanol industry's petition to raise the allowable ethanol blend in gasoline from 10% to 15%, we remain concerned about these proposals and their impact on the long-term profitability of livestock production in this country. If such proposals are approved, the portion of the U.S. corn crop diverted to ethanol production could increase to as much as 40%. The impact to the protein industry would be higher feed costs and, ultimately, higher food prices for consumers.

§ Other—The Other segment is comprised almost entirely of our wholly-owned turkey operations and our 49% interest in Butterball. As more fully described under "Additional Matters Affecting Liquidity—Butterball Buy/Sell Option," we have activated the buy/sell provision in our Butterball joint venture. The outcome of the buy/sell decision will dictate whether this segment will continue to be a reportable segment throughout fiscal 2011 and beyond. If we are successful in our bid to purchase the remaining 51% interest, we will acquire control of Butterball and include 100 percent of its results from operations in our consolidated financial statements. If we sell our interest, the segment will likely cease to exist.

Recent Regulatory Developments

In June 2010, the United States Department of Agriculture, Grain Inspection, Packers and Stockyards Administration (GIPSA) published a proposed rule adding new regulations under the Packers and Stockyards Act. If adopted as proposed, the new regulations could have a significant impact on marketing and procurement practices in the meat production and processing industry, including on integrated hog producers and processors, like us. We cannot presently assess the full economic impact of the proposed regulations on the meat processing industry or on our operations. For more information regarding these proposed regulations, see "Item 1A. Risk Factors" herein.

RESULTS OF OPERATIONS

Significant Events Affecting Results of Operations

Hog Production Cost Savings Initiative Update

In the fourth quarter of fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative). The plan includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, termination of certain high cost, third-party hog grower contracts and breeding stock sourcing contracts, as well as a number of other cost reduction activities. Certain of the activities associated with the Cost Savings Initiative are expected to occur over a two to three-year period in order to allow for the successful transformation of farms while minimizing disruption of supply.

All of the charges have been recorded in cost of sales in the Hog Production segment. The following table summarizes the balance of accrued expenses, the cumulative expense incurred to date and the expected remaining expenses to be incurred related to the Cost Savings Initiative by major type of cost.

| | Accrued Balance May 2, 2010 | Current Period Expense | Payments | Accrued Balance August 1, 2010 | Cumulative Expense-to-Date | Estimated Remaining Expense |
|---|--------------------------------------|------------------------------|-----------|---|-------------------------------|-----------------------------------|
| (in millions) | | | | | | |
| Cost savings activities: | | | | | | |
| Contract terminations | \$ 1.8 | \$ - | \$ (0.2) | \$ 1.6 | \$ 2.8 | \$ 22.9 |
| Other associated costs | - | 0.2 | (0.2) | - | 0.2 | 9.2 |
| Total cost savings activities | \$ 1.8 | 0.2 | \$ (0.4) | \$ 1.6 | 3.0 | 32.1 |
| Other charges: | | | | | | |
| Accelerated depreciation | | 0.3 | | | 4.1 | 1.8 |
| Impairment | | - | | | 2.5 | - |
| Total other charges | | 0.3 | | | 6.6 | 1.8 |
| Total cost savings activities and other charges | | \$ 0.5 | | | \$ 9.6 | \$ 33.9 |

We do not believe the benefits of the Cost Savings Initiative will have any significant impact on our results of operations in fiscal 2011. Beginning in fiscal 2012, we expect a gradual improvement in profitability of our Hog Production segment as a result of the Cost Savings Initiative. We expect that by fiscal 2014, the benefits of this initiative will be fully realized and we currently estimate profitability improvement of approximately \$2 per hundredweight.

Hog Farm Impairments

In fiscal 2008 and fiscal 2009, we announced that we would reduce the size of our U.S. sow herd by 10% in order to reduce the overall supply of hogs in the U.S. market. In June 2009 (fiscal 2010), we decided to further reduce our domestic sow herd by 3%, or approximately 30,000 sows, which was accomplished by ceasing certain hog production operations and closing certain of our hog farms. In addition, in the first quarter of fiscal 2010, we began marketing certain other hog farms. As a result of these decisions, we recorded total impairment charges of \$34.1 million, including an allocation of goodwill, in the first quarter of fiscal 2010 to write-down the hog farm assets to their estimated fair values. The impairment charges were recorded in cost of sales in the Hog Production segment.

Consolidated Results of Operations

Sales and cost of sales

| | Three Months Ended | | % Change |
|---------------------|--------------------|-------------------|-------------|
| | August 1, 2010 | August 2, 2009 | |
| | (in millions) | | |
| Sales | \$ 2,901.3 | \$ 2,715.3 | 7 % |
| Cost of sales | 2,533.6 | 2,616.6 | (3) |
| Gross profit | \$ 367.7 | \$ 98.7 | 273 % |
| Gross profit margin | 13 % | 4 % | |

The following items explain the significant changes in sales and gross profit:

§ Average unit selling prices in the Pork segment increased 15% driven primarily by a reduction in the supply of pork products and stable demand in the market.

§ Domestic live hog market prices increased to \$58 per hundredweight from \$42 in the prior year reflecting tighter supply in the industry.

§ Domestic raising costs decreased to \$54 per hundredweight from \$58 per hundredweight in the prior year driven by lower feed prices.

§ Cost of sales in the first quarter of fiscal 2010 included \$34.1 million in impairment charges related to certain hog farms, which are more fully explained under “Significant Events Affecting Results of Operations” above.

Selling, general and administrative expenses (SG&A)

| | Three Months Ended | | % Change |
|--|--------------------|-------------------|-------------|
| | August 1, 2010 | August 2, 2009 | |
| | (in millions) | | |
| Selling, general and administrative expenses | \$ 201.0 | \$ 183.8 | 9 % |

The following items explain the significant changes in SG&A:

§ Pension expense and other compensation related expenses increased \$3.7 million and \$4.7 million, respectively.

§ A reduction in the amount of government subsidies recognized for our Romanian hog production operations increased SG&A by \$7.8 million.

§ Changes in the cash surrender value of life insurance policies resulted in a year-over-year increase in SG&A of \$4.6 million.

Equity in (income) loss of affiliates

| | Three Months Ended | | % Change |
|-------------------------------------|--------------------|-------------------|-------------|
| | August 1, 2010 | August 2, 2009 | |
| | (in millions) | | |
| Campofrío Food Group (CFG) | \$ (3.2) | \$ (3.6) | (11)% |
| Butterball, LLC (Butterball) | (1.3) | 0.6 | 317 |
| Mexican joint ventures | (4.9) | (5.6) | (13) |
| All other equity method investments | (1.5) | (1.7) | (12) |
| Equity in income of affiliates | \$ (10.9) | \$ (10.3) | 6 % |

The increase of equity in income of affiliates was primarily due to an improvement in Butterball's results due to lower feed costs.

Interest expense

| | Three Months Ended | | % Change |
|------------------|--------------------|-------------------|-------------|
| | August 1, 2010 | August 2, 2009 | |
| | (in millions) | | |
| Interest expense | \$ 68.6 | \$ 60.5 | 13 % |

The increase in interest expense was primarily due to higher interest rates on debt and the amortization of debt issuance costs associated with the issuance of debt in the first quarter of fiscal 2010.

Other loss

| | Three Months Ended | | % Change |
|------------|--------------------|-------------------|-------------|
| | August 1, 2010 | August 2, 2009 | |
| | (in millions) | | |
| Other loss | \$ - | \$ 7.4 | NM |

As described more fully under "Liquidity and Capital Resources" below, we terminated commitments under our \$1.3 billion secured revolving credit agreement (the U.S. Credit Facility) in the first quarter of fiscal 2010, and recognized a \$7.4 million charge related to the write-off of amendment fees and costs associated with the U.S. Credit Facility as a loss on debt extinguishment.

Income tax expense (benefit)

| | Three Months Ended | |
|------------------------------|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| Income tax expense (benefit) | \$32.7 | \$(35.0) |
| Effective tax rate | 30 % | 25 % |

The variation in the effective tax rate during these periods was due primarily to the mix of foreign earnings (which have lower effective tax rates) and domestic earnings in fiscal 2011 compared to fiscal 2010, the benefit of the Federal manufacturer's deduction and the forecasted utilization of foreign tax credits in fiscal 2011.

Segment Results

The following information reflects the results from each respective segment prior to eliminations of inter-segment sales.

Pork Segment

| | Three Months Ended | | % Change |
|---|---|-------------------|-------------|
| | August 1, 2010 (in millions, unless indicated otherwise) | August 2, 2009 | |
| Sales: | | | |
| Fresh pork (1) | \$ 1,151.4 | \$ 1,046.8 | 10 % |
| Packaged meats | 1,262.1 | 1,205.0 | 5 |
| Total | \$ 2,413.5 | \$ 2,251.8 | 7 % |
| Operating profit (loss): | | | |
| Fresh pork (1) | \$ 46.0 | \$ (5.0) | NM% |
| Packaged meats | 67.3 | 106.0 | (37) |
| Total | \$ 113.3 | \$ 101.0 | 12 % |
| Sales volume (pounds): | | | |
| Fresh pork | | | (6)% |
| Packaged meats | | | (6) |
| Total | | | (7) |
| Average unit selling price (dollars): | | | |
| Fresh pork | | | 17 % |
| Packaged meats | | | 12 |
| Total | | | 15 |
| Average domestic live hog prices (per hundred weight) (2) | \$ 58.21 | \$ 42.30 | 38 % |

(1) Includes by-products and rendering.

(2) Represents the average live hog market price as quoted by the Iowa-Southern Minnesota hog market.

In addition to the information provided in the table above, the following items explain the significant changes in Pork segment sales and operating profit:

§ Sales and operating profit were positively impacted by substantially higher average unit selling prices driven by a reduction in the supply of pork products and stable demand in the market.

§ Fresh pork operating profit was \$7 per head compared to a loss of \$1 per head last year as fresh pork market prices increased to record seasonal levels and slaughter levels declined 11%.

§

Packaged meats operating profit margins were \$.11 per pound compared to \$.17 per pound last year. The decrease reflects substantially higher raw material costs, which we were unable to fully pass on to consumers.

Hog Production Segment

| | Three Months Ended | | % Change |
|---|---|-------------------|-------------|
| | August 1, 2010 (in millions, unless indicated otherwise) | August 2, 2009 | |
| Sales | \$ 648.3 | \$ 476.4 | 36 % |
| Operating profit (loss) | 63.8 | (180.2) | 135 |
| Head sold | 3.83 | 3.97 | (4)% |
| Average domestic live hog prices (per hundred weight) (1) | \$ 58.21 | \$ 42.30 | 38 % |
| Raising costs (per hundred weight) | 53.52 | 57.79 | (7) |

(1) Represents the average live hog market price as quoted by the Iowa-Southern Minnesota hog market.

In addition to the information provided in the table above, the following items explain the significant changes in International segment sales and operating profit:

§ Sales and operating profit were positively impacted by substantially higher live hog prices due to a reduction in the supply of market hogs. The decline in head sold reflects the contraction in our sow herd.

§ Operating profit was positively impacted by lower raising costs, driven by lower grain prices.

§ Operating loss in the first quarter of fiscal 2010 included \$34.1 million in impairment charges related to certain hog farms, which are more fully explained under "Significant Events Affecting Results of Operations" above.

§ Operating profit in the first quarter of fiscal 2011 included approximately \$11.3 million in gains on the sale of breeding stock compared to approximately \$6.1 million in losses in the first quarter of fiscal 2010.

International Segment

| | August 1, 2010 (in millions, unless indicated otherwise) | Three Months Ended August 2, 2009 | % Change |
|-----------------------------------|---|---|-------------|
| Sales: | | | |
| Poland | \$ 241.8 | \$ 221.3 | 9 % |
| Romania | 46.6 | 48.2 | (3) |
| Other | 27.9 | 24.9 | 12 |
| Total | \$ 316.3 | \$ 294.4 | 7 % |
| Operating profit (loss): | | | |
| Poland | \$ 17.4 | \$ 9.8 | 78 % |
| Romania | (0.2) | 7.3 | (103) |
| Other (1) | 7.3 | 8.3 | (12) |
| Total | \$ 24.5 | \$ 25.4 | (4)% |
| Poland: | | | |
| Sales volume (pounds) | | | 30 % |
| Average unit selling price | | | (16) |
| Head processed | | | 38 |
| Head sold | | | 16 |
| Raising costs (per hundredweight) | | | (6) |
| Romania: | | | |
| Sales volume | | | 11 % |
| Average unit selling price | | | (12) |
| Head processed | | | - |
| Head sold | | | - |
| Raising costs (per hundredweight) | | | (26) |

(1) Includes our equity method investments in Mexico and the results from our investment in CFG.

In addition to the information provided in the table above, the following items explain the significant changes in International segment sales and operating profit:

§ The increase in sales volume in Poland was due to an improved fresh pork environment along with a strong demand in packaged meats. The decrease in selling price was due to a change in product mix between fresh and packaged products.

§ In Romania, we recognized \$7.8 million less in government subsidies for hog production than the prior year due to an expiration of the subsidy program in the second half of fiscal 2010.

§ Foreign currency losses were \$2.7 million lower than the prior year.

§ Equity income from our equity method investments decreased \$1.1 million.

Other Segment

| | August 1, 2010 | Three Months Ended August 2, 2009 | % Change |
|-------------------------|-------------------|---|----------|
| | (in millions) | | |
| Sales | \$ 30.4 | \$ 71.2 | (57) % |
| Operating profit (loss) | 1.2 | (4.6) | 126 |

The following items explain the significant changes in Other segment sales and operating profit:

§ Other segment sales for the first quarter of fiscal 2010 included \$33.3 million from the sale of our remaining live cattle.

§ Sales were negatively impacted by an 18% decline in sales volume from our turkey grow out operations.

§ Equity income from Butterball improved operating profit by \$1.9 million.

Corporate Segment

| | August 1, 2010 | Three Months Ended August 2, 2009 | % Change |
|----------------|-------------------|---|----------|
| | (in millions) | | |
| Operating loss | \$ (25.2) | \$ (16.4) | (54) % |

The following items explain the significant changes in the Corporate segment's operating loss:

§ Changes in the cash surrender value of life insurance policies resulted in a year-over-year increase in operating loss of \$4.7 million.

§ Compensation expenses increased \$1.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Our cash requirements consist primarily of the purchase of raw materials used in our hog production and pork processing operations, long-term debt obligations and related interest, lease payments for real estate, machinery, vehicles and other equipment, and expenditures for capital assets, other investments and other general business purposes. Our primary sources of liquidity are cash we receive as payment for the products we produce and sell, as well as our credit facilities.

Our focus has shifted from acquisitions and capital spending to integration and debt reduction. Capital expenditures have averaged \$272.5 million over the last three full fiscal years. We expect capital spending for fiscal 2011 to be well below this average.

Based on the following, we believe that our current liquidity position is strong and that our cash flows from operations and availability under our credit facilities will be sufficient to meet our working capital needs and financial obligations for at least the next twelve months:

§ As of August 1, 2010, our liquidity position was approximately \$1.3 billion, comprised of \$758.8 million of availability under the ABL Credit Facility (as defined below), \$542.4 million in cash and cash equivalents and \$40.4 million of availability under international credit lines.

§ We generated \$102.7 million of positive net cash flows from operating activities in the first quarter of fiscal 2011.

§ We have no substantial debt obligations coming due until the second quarter of fiscal 2012.

Sources of Liquidity

We have available a variety of sources of liquidity and capital resources, both internal and external. These resources provide funds required for current operations, acquisitions, integration costs, debt retirement and other capital requirements.

Accounts Receivable and Inventories

The meat processing industry is characterized by high sales volume and rapid turnover of inventories and accounts receivable. Because of the rapid turnover rate, we consider our meat inventories and accounts receivable highly liquid and readily convertible into cash. In addition, although inventory turnover in the Hog Production segment is slower, mature hogs are readily convertible into cash. Borrowings under our credit facilities are used, in part, to finance increases in the levels of inventories and accounts receivable resulting from seasonal and other market-related fluctuations in raw material costs.

Credit Facilities

| Facility | Capacity | Borrowing Base Adjustment | August 1, 2010 | | Amount Available |
|---------------------|-----------|---------------------------------|--|---------------------------|---------------------|
| | | | Outstanding Letters of Credit (in millions) | Outstanding Borrowings | |
| ABL Credit Facility | \$1,000.0 | \$ (25.1) | \$ (216.1) | \$ - | \$ 758.8 |

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| | | | | | |
|--------------------------|-----------|------------|-------------|------------|----------|
| International facilities | 113.3 | - | - | (72.9) | 40.4 |
| Total credit facilities | \$1,113.3 | \$ (25.1) | \$ (216.1) | \$ (72.9) | \$ 799.2 |

In July 2009 (fiscal 2010), we entered into a new asset-based revolving credit agreement totaling \$1.0 billion that supports short-term funding needs and letters of credit (the ABL Credit Facility), and terminated the U.S. Credit Facility, which was scheduled to expire in August 2010 (fiscal 2011). Loans made under the ABL Credit Facility will mature and the commitments thereunder will terminate in July 2012 (fiscal 2013). However, the ABL Credit Facility will be subject to an earlier maturity if we fail to satisfy certain conditions related to the refinancing or repayment of our senior notes due 2011. The ABL Credit Facility provides for an option, subject to certain conditions, to increase total commitments to \$1.3 billion in the future.

Availability under the ABL Credit Facility is based on a percentage of certain eligible accounts receivable and eligible inventory and is reduced by certain reserves. The ABL Credit Facility requires an unused commitment fee of 1% per annum on the undrawn portion of the facility (subject to a stepdown in the event more than 50% of the commitments under the facility are utilized).

Obligations under the ABL Credit Facility are guaranteed by substantially all of our U.S. subsidiaries and are secured by a first-priority lien on the ABL Collateral (as defined below), which also secures the 2014 Notes (as defined below) and our obligations under the Rabobank Term Loan (as defined below) on a second-priority basis. Our obligations under the ABL Facility are also secured by a second-priority lien on the Non-ABL Collateral (as defined below), which secures the 2014 Notes and our obligations under the Rabobank Term Loan on a first-priority basis.

Securities

We have a shelf registration statement filed with the Securities and Exchange Commission to register sales of debt, stock and other securities from time to time. We would use the net proceeds from the possible sale of these securities for repayment of existing debt or general corporate purposes.

Cash Flows

Operating Activities

| | Three Months Ended | |
|--|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Net cash flows from operating activities | \$102.7 | \$66.5 |

The following items explain the significant changes in cash flows from operating activities:

§ Cash received from customers increased as a result of higher sales.

§ Cash paid for grain was less than the prior year due to lower feed prices.

§ Cash received for the settlement of derivative contracts and for margin requirements was \$43.5 million in the current year quarter compared to \$4.5 million in the prior year quarter.

§ We contributed \$33.4 million to our supplemental executive retirement plan in the first quarter of fiscal 2011 compared to \$0.2 million in the prior year quarter.

§ Cash paid to outside hog suppliers was significantly higher than the prior year due to a 38% increase in average live hog market prices.

§ We received a cash dividend from CFG of approximately \$3.4 million in the first quarter of fiscal 2011 compared to \$16.6 million in the prior year quarter.

Investing Activities

| | Three Months Ended | |
|--|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Capital expenditures | \$(30.8) | \$(30.4) |
| Other | 14.8 | 4.2 |
| Net cash flows from investing activities | \$(16.0) | \$(26.2) |

The following items explain the significant investing activities for the three months ended August 1, 2010 and August 2, 2009:

Fiscal 2011

§ Capital expenditures primarily related to plant and hog farm improvement projects.

§ Other investing activities consists primarily of proceeds from sale of property, plant and equipment.

Fiscal 2010

§ Capital expenditures primarily related to the Restructuring Plan and plant and hog farm improvement projects.

Financing Activities

| | Three Months Ended | |
|--|--------------------|-------------------|
| | August 1, 2010 | August 2, 2009 |
| | (in millions) | |
| Proceeds from the issuance of long-term debt | \$- | \$604.3 |
| Net proceeds (repayments) on revolving credit facilities and notes payable | 28.2 | (134.8) |
| Principal payments on long-term debt and capital lease obligations | (23.7) | (75.9) |
| Proceeds from the issuance of common stock | 0.2 | - |
| Debt issuance costs | - | (48.1) |
| Net cash flows from financing activities | \$4.7 | \$345.5 |

The following items explain the significant financing activities for the three months ended August 1, 2010 and August 2, 2009:

Fiscal 2011

§ We received \$13.6 million and \$11.9 million, respectively, from the issuance of notes payable and draws on credit facilities in the International segment.

§ We paid \$22.5 million on outstanding loans in the International segment.

Fiscal 2010

§ In July 2009, we issued \$625 million aggregate principal amount of 10% senior secured notes, which will mature in July 2014 (the 2014 Notes). The 2014 Notes were issued at a price equal to 96.201% of their face value. Interest payments are due semi-annually on January 15 and July 15.

We used the net proceeds from the issuance of the 2014 Notes to repay borrowings and terminate commitments under the U.S. Credit Facility, repay and/or refinance other indebtedness and for other general corporate purposes.

§ In July 2009, we entered into a new \$200 million term loan due August 29, 2013 (the Rabobank Term Loan), which replaced our then existing \$200 million term loan that was scheduled to mature in August 2011. We are obligated to repay \$25 million of the borrowings under the Rabobank Term Loan on each of August 29, 2011 and August 29, 2012. We may elect to prepay the loan at any time, subject to the payment of certain prepayment fees in respect of any voluntary prepayment prior to August 29, 2011 and other customary breakage costs.

§ We paid debt issuance costs totaling \$48.1 million related to the 2014 Notes, the Rabobank Term Loan and the ABL Credit Facility. The debt issuance costs were capitalized and are being amortized into interest expense over the life of each instrument.

Credit Ratings

As of the end of the first quarter of fiscal year 2011, our credit ratings were 'B-' by Standard & Poor's Rating Services (S&P) and 'B2' by Moody's Investor Services (Moody's). Although we had no borrowings outstanding on the ABL Credit Facility, the interest expense spread that would have been applicable based on these ratings would have been 4.50%. A downgrade by either rating agency would not result in an increase in our interest expense spread because any borrowings would currently be subject to the maximum spread under our ratings based pricing.

Debt Covenants and the Incurrence Test

Our various debt agreements contain covenants that limit additional borrowings, acquisitions, dispositions, leasing of assets and payments of dividends to shareholders, among other restrictions.

Our senior unsecured and secured notes limit our ability to incur additional indebtedness, subject to certain exceptions, when our interest coverage ratio is, or after incurring additional indebtedness would be, less than 2.0 to 1.0 (the Incurrence Test). As of August 1, 2010, we did not meet the Incurrence Test. Due to the trailing twelve month nature of the Incurrence Test, we do not expect to meet the Incurrence Test again until the second quarter of fiscal 2011 at the earliest. The Incurrence Test is not a maintenance covenant and our failure to meet the Incurrence Test is not a default. In addition to limiting our ability to incur additional indebtedness, our failure to meet the Incurrence Test restricts us from engaging in certain other activities, including paying cash dividends, repurchasing our common stock and making certain investments. However, our failure to meet the Incurrence Test does not preclude us from borrowing on the ABL Credit Facility or from refinancing existing indebtedness. Therefore we do not expect the limitations resulting from our inability to satisfy the Incurrence Test to have a material adverse effect on our business or liquidity.

Our ABL Credit Facility contains a covenant requiring us to maintain a fixed charges coverage ratio of at least 1.1 to 1.0 when the amounts available for borrowing under the ABL Credit Facility are less than the greater of \$120 million or 15% of the total commitments under the facility (currently \$1.0 billion). We currently are not subject to this restriction and we do not anticipate that our borrowing availability will decline below those thresholds during fiscal 2011, although there can be no assurance that this will not occur because our borrowing availability depends

upon our borrowing base calculated for purposes of that facility.

Guarantees

As part of our business, we are a party to various financial guarantees and other commitments as described below. These arrangements involve elements of performance and credit risk that are not included in the consolidated condensed balance sheets. We could become liable in connection with these obligations depending on the performance of the guaranteed party or the occurrence of future events that we are unable to predict. If we consider it probable that we will become responsible for an obligation, we will record the liability on our consolidated balance sheet.

We (together with our joint venture partners) guarantee financial obligations of certain unconsolidated joint ventures. The financial obligations are: up to \$76.8 million of debt borrowed by Agroindustrial del Noroeste (Norson), of which \$66.3 million was outstanding as of August 1, 2010, and up to \$3.5 million of liabilities with respect to currency swaps executed by another of our unconsolidated Mexican joint ventures, Granjas Carroll de Mexico (Granjas). The covenants in the guarantee relating to Norson's debt incorporate our covenants under the ABL Credit Facility. In addition, we continue to guarantee \$13.3 million of leases that were transferred to JBS in connection with the sale of Smithfield Beef. Some of these lease guarantees may be released in the near future and others may remain in place until the leases expire through February 2022.

Additional Matters Affecting Liquidity

Capital Projects

As of August 1, 2010, we had total estimated remaining capital expenditures of \$128 million on approved projects, including approximately \$80 million related to the Cost Savings Initiative. These projects are expected to be funded over the next several years with cash flows from operations and borrowings under credit facilities. Total capital expenditures are expected to remain below depreciation in fiscal 2011.

Repurchase of Senior Unsecured Notes

In August 2010 (fiscal 2011) and through September 8, 2010, we repurchased a portion of our senior unsecured notes due August 2011 for \$71.3 million. We have classified the carrying amount of these notes totaling \$69.4 million within current portion of long-term debt and capital lease obligations on the consolidated condensed balance sheet as of August 1, 2010. A loss of approximately \$1.9 million on the repurchase of this debt will be recognized in the second quarter of fiscal 2011.

Butterball Buy/Sell Option

In June 2010 (fiscal 2011), we announced that we have made an offer to purchase our joint venture partner's 51% ownership interest in Butterball and our partner's related turkey production assets for approximately \$200 million. In accordance with Butterball's operating agreement, our partner may either accept the offer to sell or be required to purchase our 49% interest and our related turkey production assets. We expect to conclude the buy/sell decision no later than September 2010 (fiscal 2011) and close before the end of the calendar year. If we are the buyer, we will be required to retire Butterball's debt obligations totaling approximately \$240 million as of August 1, 2010. Additionally, if we are the buyer, we anticipate that a significant amount of capital investment and marketing will be necessary to increase Butterball's earnings potential. We believe our current liquidity position will be sufficient to finance this transaction. However, we will evaluate capital alternatives at the appropriate time.

Risk Management Activities

We are exposed to market risks primarily from changes in commodity prices, and to a lesser degree, interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates, as more fully described under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments” in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010. Our liquidity position may be positively or negatively affected by changes in the underlying value of our derivative portfolio. When the value of our open derivative contracts decrease, we may be required to post margin deposits with our brokers to cover a portion of the decrease. Conversely, when the value of our open derivative contracts increase, our brokers may be required to deliver margin deposits to us for a portion of the increase. During the first quarter of fiscal 2011, margin deposits posted by us ranged from \$43.8 million to \$193.9 million. The average daily amount on deposit with brokers during fiscal 2011 was \$101.1 million. As of August 1, 2010, the net amount on deposit with brokers was \$65.3 million.

The effects, positive or negative, on liquidity resulting from our risk management activities tend to be mitigated by offsetting changes in cash prices in our core business. For example, in a period of rising grain prices, gains resulting from long grain derivative positions would generally be offset by higher cash prices paid to farmers and other suppliers in spot markets. These offsetting changes do not always occur, however, in the same amounts or in the same period, with lag times of as much as twelve months.

FORWARD-LOOKING STATEMENTS

This report contains “forward-looking” statements within the meaning of the federal securities laws. The forward-looking statements include statements concerning our outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Our forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the availability and prices of live hogs, raw materials, fuel and supplies, food safety, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, risks associated with our indebtedness, including cost increases due to rising interest rates or changes in debt ratings or outlook, hedging risk, operating efficiencies, changes in foreign currency exchange rates, access to capital, the cost of compliance with and changes to regulations and laws, including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws, adverse results from on-going litigation, actions of domestic and foreign governments, labor relations issues, credit exposure to large customers, the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, our ability to effectively restructure portions of our operations and achieve cost savings from such restructurings and other risks and uncertainties described under “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q for the quarter ended August 1, 2010 and under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010. Readers are cautioned not to place undue reliance on forward-looking statements because actual results may differ materially from those expressed in, or implied by, the statements. Any forward-looking statement that we make speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For complete quantitative and qualitative disclosures about market risk affecting the Company, see “Item 7A. Qualitative and Quantitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010. The following table presents the sensitivity of the fair value of our open commodity contracts and interest rate and foreign currency contracts to a hypothetical 10% change in market prices or in interest rates and foreign exchange rates, as of August 1, 2010 and May 2, 2010.

| | August 1, 2010 | May 2, 2010 |
|------------------|-------------------|----------------|
| | (in millions) | |
| Livestock | \$63.3 | \$137.2 |
| Grains | 34.4 | 48.8 |
| Energy | 0.7 | 0.9 |
| Interest rates | 0.1 | 0.2 |
| Foreign currency | 9.3 | 5.0 |

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), regarding the effectiveness of the design and

operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of August 1, 2010. Based on that evaluation, management, including the CEO and CFO, has concluded that our disclosure controls and procedures were effective as of August 1, 2010.

There were no changes in our internal control over financial reporting during our first quarter of fiscal 2011 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Missouri Litigation

The following updates the disclosure of the “Missouri Litigation” as set forth under Item 3. Legal Proceedings in our Annual Report on Form 10-K filed on June 18, 2010.

PSF is a wholly-owned subsidiary that we acquired on May 7, 2007 when a wholly-owned subsidiary of ours merged with and into PSF. As a result of our acquisition of PSF and through other separate acquisitions by CGC of our common stock, CGC beneficially owned approximately 7.9% of our common stock as of June 16, 2010.

In 2002, lawsuits based on the law of nuisance were filed against PSF and CGC in the Circuit Court of Jackson County, Missouri entitled Steven Adwell, et al. v. PSF, et al. and Michael Adwell, et al. v. PSF, et al. In November 2006, a jury trial involving six plaintiffs in the Adwell cases resulted in a jury verdict of compensatory damages for those six plaintiffs in the amount of \$750,000 each for a total of \$4.5 million. The jury also found that CGC and PSF were liable for punitive damages; however, the parties agreed to settle the plaintiffs’ claims for the amount of the compensatory damages, and the plaintiffs waived punitive damages.

On March 1, 2007, the court severed the claims of the remaining Adwell plaintiffs into separate actions and ordered that they be consolidated for trial by household. In the second Adwell trial, a jury trial involving three plaintiffs resulted in a jury verdict in December 2007 in favor of PSF and CGC as to all claims. On July 8, 2008, the court reconsolidated the claims of the remaining 49 Adwell plaintiffs for trial by farm.

On March 4, 2010, a jury trial involving 15 plaintiffs who live near Homan farm resulted in a jury verdict of compensatory damages for the plaintiffs for a total of \$11,050,000. Thirteen of the Homan farm plaintiffs received damages in the amount of \$825,000 each. One of the plaintiffs received damages in the amount of \$250,000, while another plaintiff received \$75,000. On May 24, 2010, the court denied defendants’ Motion for Judgment Notwithstanding the Verdict and Motion for New Trial or, in the Alternative, Motion for Remittitur. On June 2, 2010, the defendants filed their Notice of Appeal, and appellate proceedings are currently pending in the Court of Appeals of Missouri (Western District). The Company believes that there are substantial grounds for reversal of the verdict on appeal. Pursuant to a pre-existing arrangement, PSF is obligated to indemnify CGC for certain liabilities, if any, resulting from the Missouri litigation, including any liabilities resulting from the foregoing verdict.

On April 27, 2010, defendants filed a Motion for Separate Trials seeking deconsolidation of the remaining Adwell plaintiffs’ claims, including claims of those plaintiffs included in the next Adwell trial, which will resolve the claims of up to 28 plaintiffs who live near Scott Colby farm. Although the court denied the Motion for Separate Trials on June 28, 2010, it reset the date for that next Adwell trial from January 31, 2011 to August 1, 2011.

In March 2004, the same attorneys representing the Adwell plaintiffs filed two additional nuisance lawsuits in the Circuit Court of Jackson County, Missouri entitled Fred Torrey, et al. v. PSF, et al. and Doyle Bounds, et al. v. PSF, et al. There are seven plaintiffs in both suits combined, each of whom claims to live near swine farms owned or under contract with PSF. Plaintiffs allege that these farms interfered with the plaintiffs’ use and enjoyment of their respective properties. Plaintiffs in the Torrey suit also allege trespass.

In May 2004, two additional nuisance suits were filed in the Circuit Court of Daviess County, Missouri entitled Vernon Hanes, et al. v. PSF, et al. and Steve Hanes, et al. v. PSF, et al. Plaintiffs in the Vernon Hanes case allege nuisance, negligence, violation of civil rights, and negligence of contractor. In addition, plaintiffs in both the Vernon

and Steve Hanes cases assert personal injury and property damage claims. Plaintiffs seek recovery of an unspecified amount of compensatory and punitive damages, costs and attorneys' fees, as well as injunctive relief. On March 28, 2008, plaintiffs in the Vernon Hanes case voluntarily dismissed all claims without prejudice. A new petition was filed by the Vernon Hanes plaintiffs on April 14, 2008, alleging nuisance, negligence and trespass against six defendants, including us. The Vernon Hanes case was transferred to DeKalb County and has been set for trial to commence on October 4, 2010.

Also in May 2004, the same lead lawyer who filed the Adwell, Bounds and Torrey lawsuits filed a putative class action lawsuit entitled Daniel Herrold, et al. and Others Similarly Situated v. ContiGroup Companies, Inc., PSF, and PSF Group Holdings, Inc. in the Circuit Court of Jackson County, Missouri. This action originally sought to create a class of plaintiffs living within ten miles of PSF's farms in northern Missouri, including contract grower farms, who were alleged to have suffered interference with their right to use and enjoy their respective properties. On January 22, 2007, plaintiffs in the Herrold case filed a Second Amended Petition in which they abandoned all class action allegations and efforts to certify the action as a class action and added an additional 193 named plaintiffs to join the seven prior class representatives to pursue a one count claim to recover monetary damages, both actual and punitive, for temporary nuisance. PSF filed motions arguing that the Second Amended Petition, which abandons the putative class action and adds 193 new plaintiffs, is void procedurally and that the case should either be dismissed or the plaintiffs' claims severed and removed under Missouri's venue statute to the northern Missouri counties in which the alleged injuries occurred. On June 28, 2007, the court entered an order denying the motion to dismiss but granting defendants' motion to transfer venue. As a result of those rulings, the claims of all but seven of the plaintiffs have been transferred to the appropriate venue in northern Missouri.

Following the initial transfers, plaintiffs filed motions to transfer each of the cases back to Jackson County. Those motions were denied in all nine cases, but seven cases were transferred to neighboring counties pursuant to Missouri's venue rules. Following all transfers, Herrold cases were pending in Chariton, Clark, DeKalb, Harrison, Jackson, Linn, and Nodaway counties. Plaintiffs agreed to file Amended Petitions in all cases except Jackson County; however, Amended Petitions have been filed in only Chariton, Clark, Harrison, Linn and Nodaway counties. In the Amended Petitions filed in Chariton on April 30, 2010 and in Linn on May 13, 2010, plaintiffs added claims of negligence and also claim that defendants are liable for the alleged negligence of several contract grower farms. Pursuant to notices of dismissal filed by plaintiffs on January 27, February 23 and April 10, 2009, all cases in Nodaway County have been dismissed. Discovery is now proceeding in the remaining cases where Amended Petitions have been filed.

In February 2006, the same lawyer who represents the plaintiffs in Hanes filed a nuisance lawsuit entitled Garold McDaniel, et al. v. PSF, et al. in the Circuit Court of Daviess County, Missouri. In the Second Amended Petition, which was filed on February 2008, plaintiffs seek recovery of an unspecified amount of compensatory and punitive damages, costs and injunctive relief. The parties are conducting discovery, and no trial date has been set.

In May 2007, the same lead lawyer who filed the Adwell, Bounds, Herrold and Torrey lawsuits filed a nuisance lawsuit entitled Jake Cooper, et al. v. Smithfield Foods, Inc., et al. in the Circuit Court of Vernon County, Missouri. Murphy-Brown, LLC, Murphy Farms, LLC, Murphy Farms, Inc. and we have all been named as defendants. The other seven named defendants include Murphy Family Ventures, LLC, DM Farms of Rose Hill, LLC, and PSM Associates, LLC, which are entities affiliated with Wendell Murphy, a director of ours, and/or his family members. Initially there were 13 plaintiffs in the lawsuit, but the claims of two plaintiffs were voluntarily dismissed without prejudice. All remaining plaintiffs are current or former residents of Vernon and Barton Counties, Missouri, each of whom claims to live or have lived near swine farms presently or previously owned or managed by the defendants. Plaintiffs allege that odors from these farms interfered with the use and enjoyment of their respective properties. Plaintiffs seek recovery of an unspecified amount of compensatory and punitive damages, costs and attorneys' fees. Defendants have filed responsive pleadings and discovery is ongoing.

In July 2008, the same lawyers who filed the Adwell, Bounds, Herrold, Torrey and Cooper lawsuits filed a nuisance lawsuit entitled John Arnold, et al. v. Smithfield Foods, Inc., et al. in the Circuit Court of Daviess County, Missouri. The Company, two of our subsidiaries, PSF and KC2 Real Estate LLC, CGC, and one employee were all named as defendants. There were three plaintiffs in the lawsuit, who are residents of Daviess County and who claimed to live near swine farms owned or operated by defendants. Plaintiffs alleged that odors from these farms cause nuisances that interfere with the use and enjoyment of their properties. On April 20, 2009, plaintiffs voluntarily dismissed this case without prejudice. Plaintiffs refiled the case on April 20, 2010, adding CGC as a defendant. Defendants have filed responsive pleadings, including a motion to dismiss all claims against the employee-defendant.

We believe we have good defenses to all of the actions described above and intend to defend vigorously these suits.

Extension of Missouri State Consent Judgment

The following updates the disclosure of the Missouri State Consent Judgment under "Regulation: Regulatory and Other Proceedings" as set forth under Item 1. Business in our Annual Report on Form 10-K filed on June 18, 2010.

Prior to our acquisition of PSF, it had entered into a consent judgment with the State of Missouri and a consent decree with the federal government and a citizens group. The judgment and decree generally required that PSF pay penalties to settle past alleged regulatory violations, utilize new technologies to reduce nitrogen in the material that it applies to farm fields and research, and develop and implement "Next Generation Technology" for environmental controls at certain of its Missouri operations.

Prior to our acquisition of PSF, it estimated in 2004 that it would invest approximately \$33.0 million in total capital to implement the new technologies by calendar 2010 to comply with the judgment and decree. As of May 2, 2010, PSF estimated costs to comply with the judgment and decree to be approximately \$41.0 million, of which \$28.4 million had been spent. Included in these expenditures is a fertilizer plant in northern Missouri that converts waste into commercial grade fertilizer. As of May 2, 2010, we also anticipated spending an estimated \$2.3 million to replace aging lagoon covers, which PSF installed in the past to comply with consent judgment obligations.

On September 1, 2010, PSF and the Attorney General of the State of Missouri jointly filed a Judgment Extending the Consent Judgment (the Extension) to install new technologies approved in April 2010 by the panel of university experts responsible for approving new technologies. Pursuant to the terms of the Extension, PSF agreed, among other things, to reduce the hog population at three farms, install mechanical devices designed to scrape manure from the subfloors of barns at certain Missouri farms (the scrapers), and make a voluntary payment of \$1.0 million to the road funds and school funds in specified Missouri counties where PSF operates. The Extension provides for various benchmarks and a timetable to complete these tasks with stipulated penalties for not meeting the deadlines. The deadline for the full installation of the scrapers has been extended to July 31, 2012. Although PSF continues to analyze the expected costs to implement the Extension, it does not currently expect that the estimated costs to comply with the Extension materially increase the \$41.0 million estimate to comply with the judgment and decree as of May 2, 2010.

ITEM 1A. RISK FACTORS

The following risk factor has been updated from the previous disclosure in our Annual Report on Form 10-K for the fiscal year ended May 2, 2010.

Governmental authorities may take further action restricting our ability to produce and/or sell livestock or adopt new regulations impacting our production or processing operations, which could adversely affect our business.

A number of states, including Iowa and Missouri, have adopted legislation that prohibits or restricts the ability of meat packers, or in some cases corporations generally, from owning livestock or engaging in farming. In the second quarter of fiscal 2006, we entered into a settlement agreement with the State of Iowa whereby the state agreed not to enforce its restrictive legislation on us for a period of ten years. As a part of our settlement, we committed to pay \$200,000 per year for 10 years to support various programs benefiting the swine industry in Iowa. We also agreed to purchase a specified minimum number of hogs to be processed by us in Iowa and South Dakota on the open market for two years.

Other states have similar legislation restricting the ability of corporations or others from owning livestock farms or engaging in farming. In addition, Congress has recently considered federal legislation that would ban meat packers from owning livestock. We cannot assure you that such or similar legislation affecting our operations will not be adopted at the federal or state levels in the future. Such legislation, if adopted and applicable to our current operations and not successfully challenged or settled, could have a material adverse impact on our operations and our financial statements.

In fiscal 2008, the State of North Carolina enacted a permanent moratorium on the construction of new hog farms using the lagoon and sprayfield system. The moratorium limits us from expanding our North Carolina production operations. This permanent moratorium replaced a 10-year moratorium on the construction of hog farms with more than 250 hogs or the expansion of existing large farms. This moratorium may over time lead to increased competition for contract growers.

Further, in June 2010, the United States Department of Agriculture, Grain Inspection, Packers and Stockyards Administration (GIPSA) published a proposed rule adding new regulations under the Packers and Stockyards Act (PSA). If adopted as proposed, the new regulations appear to, among other things:

- prohibit meat packers from purchasing livestock from other packers or their affiliates;
- eliminate the requirement that GIPSA or livestock producers demonstrate competitive harm to prove violations of Sections 202(a) and 202(b) of the PSA, which sections limit unfair, unjustly discriminatory or deceptive practices and undue or unreasonable preferences or advantages in livestock purchasing practices;
- require meat packers to maintain written records justifying deviations from standard price or contract terms offered to livestock producers; and
- limit a packer's ability to purchase livestock through dealers operating as packer buyers.

As an integrated hog producer and processor, these new regulations, if adopted, could significantly impact our relationships both with other meat packers to whom we sell livestock and with our independent contract growers from whom we buy livestock by prohibiting or restricting numerous practices that have been permitted for decades. We cannot predict whether the proposed regulations or some modified regulations will be adopted or the extent of the effect of any such regulations on the meat processing industry or on our operations or financial results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) | (d) |
|--------------------------------|---|---|---|---|
| | | | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
| May 3, 2010 to June 1, 2010 | - | n/a | n/a | 2,873,430 |
| June 2, 2010 to July 1, 2010 | 5,639 | \$ 15.56 | n/a | 2,873,430 |
| July 2, 2010 to August 1, 2010 | - | n/a | n/a | 2,873,430 |
| Total | 5,639 | (2) \$ 15.56 | n/a | 2,873,430 |

(1) As of August 1, 2010, our board of directors had authorized the repurchase of up to 20,000,000 shares of our common stock. The original repurchase plan was announced on May 6, 1999 and increases in the number of shares we may repurchase under the plan were announced on December 15, 1999, January 20, 2000, February 26, 2001, February 14, 2002 and June 2, 2005. There is no expiration date for this repurchase plan.

(2) The purchases were made in open market transactions by Wells Fargo, as trustee, and the shares are held in a rabbi trust for the benefit of participants in the Smithfield Foods, Inc. 2008 Incentive Compensation Plan director fee deferral program. The 2008 Incentive Compensation Plan was approved by our shareholders on August 27, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6.

EXHIBITS

- Exhibit 3.1 — Articles of Amendment effective August 27, 2009 to the Amended and Restated Articles of Incorporation, including the Amended and Restated Articles of Incorporation of the Company, as amended to date (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on September 11, 2009).
- Exhibit 3.2 — Amendment to the Bylaws effective June 16, 2010, including the Bylaws of the Company, as amended to date (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the SEC on June 18, 2010).
- Exhibit 4.1 — Form of Subordinated Indenture between the Company and U.S. Bank National Association, as trustee, as supplemented from time to time (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 filed with the SEC on June 25, 2010).
- Exhibit 10.1 — Summary of Performance Share Unit Awards to Executive Officers in the Pork Group granted on June 15, 2010 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on June 21, 2010).
- Exhibit 10.2 — Retirement Agreement and General Release dated as of August 9, 2010 between the Company and Richard J. M. Poulson (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on August 16, 2010).
- Exhibit 10.3 — Form of Smithfield Foods, Inc. 2008 Incentive Compensation Plan Performance Share Unit Award to Executive Officers in the Pork Group granted on June 15, 2010 (filed herewith).
- Exhibit 10.4 — Compensation for Named Executive Officers for fiscal 2011 (filed herewith).
- Exhibit 10.5 — Smithfield Foods, Inc. Change in Control Executive Severance Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on September 8, 2010).
- Exhibit 31.1 — Certification of C. Larry Pope, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 31.2 — Certification of Robert W. Manly, IV, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 32.1 — Certification of C. Larry Pope, President and Chief Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 32.2 — Certification of Robert W. Manly, IV, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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.

Smithfield Foods, Inc.

/s/ ROBERT W. MANLY, IV
Robert W. Manly, IV
Executive Vice President and Chief Financial
Officer

/s/ KENNETH M. SULLIVAN
Kenneth M. Sullivan
Vice President and Chief Accounting Officer

Date: September 9, 2010

