SMITHFIELD FOODS INC
Form 10-K
June 18, 2012

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

FORM 10-K

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

For the fiscal year ended April 29, 2012
Commission file number: 1-15321

SMITHFIELD FOODS, INC.
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	52-0845861 (I.R.S. Employer Identification No.)
200 Commerce Street Smithfield, Virginia (Address of principal executive offices)	23430 (Zip Code)

(757) 365-3000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.50 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 þ Accelerated filer ¨ 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 þ

The aggregate market value of the shares of registrant's Common Stock held by non-affiliates as of October 30, 2011 was approximately $2.9 billion. This figure was calculated by multiplying (i) the $23.26 last sales price of registrant's Common Stock as reported on the New York Stock Exchange on the last business day of the registrant's most recently completed second fiscal quarter by (ii) the number of shares of registrant's Common Stock not held by any executive officer or director of the registrant or any person known to the registrant to own more than five percent of the outstanding Common Stock of the registrant. Such calculation does not constitute an admission or determination that any such executive officer, director or holder of more than five percent of the outstanding shares of Common Stock of the registrant is in fact an affiliate of the registrant.

At June 13, 2012, 154,789,292 shares of the registrant's Common Stock were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement to be filed with respect to its Annual Meeting of Shareholders to be held on September 19, 2012.

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PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Smithfield Foods, Inc., together with its subsidiaries (the “Company,” “we,” “us” or “our”), began as a pork processing operation called The Smithfield Packing Company, founded in 1936 by Joseph W. Luter and his son, Joseph W. Luter, Jr. Through a series of acquisitions starting in 1981, we have become the largest pork processor and hog producer 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 affected by fluctuations in commodity prices. Additionally, some of the key factors influencing our business are customer preferences and demand for our products; our ability to maintain and grow relationships with customers; the introduction of new and innovative products to the marketplace; accessibility to international markets for our products including the effects of any trade barriers; and operating efficiencies of our facilities.

We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous 49% interest in Butterball, LLC (Butterball), which were sold in December 2010 (fiscal 2011), as well as our former live cattle operations, which were sold in the first quarter of fiscal 2010. The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries: The Smithfield Packing Company, Inc. (Smithfield Packing), Farmland Foods, Inc. (Farmland Foods) and John Morrell Food Group (John Morrell). The Hog Production segment consists of our hog production operations located in the U.S. 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 Corporate segment provides management and administrative services to support our other segments.

Pork Segment Restructuring and Strategies for Growth

In fiscal 2011, we completed our Pork segment restructuring plan, in which we consolidated a number of independent operating companies into three large regional operating companies, increased capacity utilization by closing six inefficient and underutilized packaged meats plants and one fresh pork plant, merged our two independent fresh pork sales forces, consolidated our export sales organizations, and rationalized our brands (the Restructuring Plan). The Restructuring Plan resulted in cumulative restructuring and impairment charges of approximately $105.5 million and annual profitability improvement of approximately $125 million.

With the completion of the Restructuring Plan, we are focused on top and bottom line growth in our base business. Our strategies for growth include:

Focus On Twelve Core Brands—We are focusing our marketing support on twelve major brand names: Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook’s, Curly's and Healthy Ones. Approximately three-quarters of our domestic retail packaged meats sales are branded products, with nearly 90% of those branded sales being core brands.

Invest in Advertising to Activate Brands—We have begun to invest more heavily in marketing talent and consumer advertising campaigns to drive consumer awareness. In December 2011 (fiscal 2012), we entered into a multi-year sponsorship agreement with the Richard Petty Motorsports NASCAR team to help activate our brands with consumer-focused marketing.

Build a Strong Innovation Pipeline—We are driving consumer relevant product innovation by focusing on delivering convenience oriented products such as our Smithfield marinated pork products, convenient packaging such as our Smithfield bacon pouch pack and healthier, reduced sodium products. In fiscal 2012, we opened a 37,000 square foot research and development center with three state of the art kitchens, a dedicated cutting room, multimedia technology, and a pilot plant that simulates full scale manufacturing processes. This facility allows us to co-develop prototypes

with customers and make quick product modifications for speed to the market.
Coordinated Sales and Marketing Team—The restructured sales groups provide for a more coordinated and focused strategy to access markets and service customers.

Portsmouth, Virginia Plant

In November 2011 (fiscal 2012), we announced that we would shift the production of hot dogs and lunchmeat from Smithfield Packing's Portsmouth, Virginia plant to our Kinston, North Carolina plant and permanently close the Portsmouth facility. The Kinston facility will be expanded to handle the additional production and will incorporate state of the art technology and equipment, which is expected to produce significant production efficiencies and cost reductions. The Kinston expansion will require an estimated $85 million in capital expenditures, $32.8 million of which has been spent as of April 29, 2012. The expansion of the Kinston facility and the closure of the Portsmouth facility are expected to be completed by the end of fiscal 2013.

Missouri Hog Farms

In the first half of fiscal 2011, we began reducing the hog population on certain of our farms in Missouri in order to comply with an amended consent decree. The amended consent decree allows us to return the farms to full capacity upon the installation of an approved "next generation" technology that would reduce the level of odor produced by the farms. The reduced hog raising capacity at these farms was replaced with third party contract farmers in Iowa. Based on the favorable hog raising performance experienced with these third party contract farmers and the amount of capital required to install "next generation" technology at our Missouri farms, we made the decision in the first quarter of fiscal 2012 to permanently idle certain of the assets on these farms.

Hog Production Cost Savings Initiative

In 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.

Cumulative pre-tax charges from the Cost Savings Initiative were $40.2 million through fiscal 2012. There are no significant charges remaining. We anticipate capital expenditures to total approximately $86 million. Capital expenditures incurred through fiscal 2012 totaled $77.2 million.

DESCRIPTION OF SEGMENTS

Pork Segment

The Pork segment consists mainly of three wholly-owned U.S. fresh pork and packaged meats subsidiaries: Smithfield Packing, Farmland Foods and John Morrell. The Pork segment produces a wide variety of fresh pork and packaged meats products in the U.S. and markets them nationwide and to numerous foreign markets, including China, Japan, Mexico, Russia and Canada. The Pork segment currently operates approximately 40 processing plants. We process hogs at eight plants (five in the Midwest and three in the Southeast), with an aggregate slaughter capacity of approximately 110,000 hogs per day. In fiscal 2012, the Pork segment processed approximately 27.7 million hogs.

The Pork segment sold approximately 3.8 billion pounds of fresh pork in fiscal 2012. A substantial portion of our fresh pork is sold to retail customers as unprocessed, trimmed cuts such as butts, loins (including roasts and chops), picnics and ribs.

The Pork segment also sold approximately 2.7 billion pounds of packaged meats products in fiscal 2012. We produce a wide variety of packaged meats, including smoked and boiled hams, bacon, sausage, hot dogs (pork, beef and chicken), deli and luncheon meats, specialty products such as pepperoni, dry meat products, and ready-to-eat, prepared foods such as pre-cooked entrees and pre-cooked bacon and sausage. We market our domestic packaged meats products under a number of labels including the following core brand names: Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook’s, Curly's and Healthy Ones. We also sell a substantial quantity of packaged meats as private-label products.

Our product lines also include leaner fresh pork products as well as lower-fat and lower-salt packaged meats. We also market a line of lower-fat value-priced luncheon meats, smoked sausage and hot dogs, as well as fat-free deli hams and 40% lower-fat bacon.

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The following table shows the percentages of Pork segment revenues derived from packaged meats products and fresh pork for the fiscal years indicated.

	Fiscal Years					
	2012		2011		2010	
Packaged meats	54	%	56	%	55	%
Fresh pork [1]	46		44		45	
	100	%	100	%	100	%

[1] Includes by-products and rendering.

In fiscal 2012, export sales comprised approximately 18% of the Pork segment's volumes and approximately 16% of the segment's revenues.

Hog Production Segment

As a complement to our Pork segment, we have vertically integrated into hog production and are the world's largest hog producer. The Hog Production segment consists of our hog production operations located in the U.S. The Hog Production segment operates numerous hog production facilities with approximately 851,000 sows producing about 15.8 million market hogs annually.

The profitability of hog production is directly related to the market price of live hogs and the cost of feed grains such as corn and soybean meal. The Hog Production segment generates higher profits when hog prices are high and feed grain prices are low, and lower profits (or losses) when hog prices are low and feed grain prices are high. We believe that the Hog Production segment furthers our strategic initiative of vertical integration and reduces our exposure to fluctuations in profitability historically experienced by the pork processing industry. In addition, with the importance of food safety to the consumer, our vertically integrated system provides increased traceability from conception of livestock to consumption of the pork product.

The following table shows the percentages of Hog Production segment revenues derived from hogs sold internally and externally and other products for the fiscal years indicated.

	Fiscal Years					
	2012		2011		2010	
Internal hog sales	80	%	78	%	77	%
External hog sales	12		15		15	
Other products [1]	8		7		8	
	100	%	100	%	100	%

[1] Consists primarily of feed, non-market hog sales and gains (losses) on derivatives.

Genetics

We own certain genetic lines of specialized breeding stock which are marketed using the name Smithfield Premium Genetics (SPG). The Hog Production segment makes extensive use of these genetic lines, with approximately 838,000 SPG breeding sows. In addition, we have sublicensed some of these rights to some of our strategic hog production partners. We believe that the hogs produced by these genetic lines are the leanest hogs commercially available and enable us to market highly differentiated pork products. We believe that the leanness and increased meat yields of these hogs enhance our profitability with respect to both fresh pork and packaged meats. In fiscal 2012, we produced approximately 15.0 million SPG hogs.

Hog production operations

We use advanced management techniques to produce premium quality hogs on a large scale at a low cost. We develop breeding stock, optimize diets for our hogs at each stage of the growth process, process feed for our hogs and design hog containment facilities. We believe our economies of scale and production methods, together with our use of the advanced SPG genetics, make us a low cost producer of premium quality hogs. We also utilize independent farmers and their facilities to raise hogs produced from our breeding stock. Under multi-year contracts, a farmer provides the initial facility investment, labor and front line management in exchange for a service fee. In fiscal 2012, approximately 72% of our market hogs were finished on contract farms.

International Segment

The International segment includes 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. Our international meat processing operations produce a wide variety of fresh pork, beef, poultry and packaged meats products, including cooked hams, sausages, hot dogs, bacon and canned meats. Our noncontrolling interests in international meat processing operations include a 37% interest in the common stock of Campofrío Food Group (CFG), a leading European packaged meats company headquartered in Madrid, Spain, and one of the largest worldwide with annual sales of approximately $2.5 billion.

The following table shows the percentages of International segment revenues derived from packaged meats, fresh meats and other products for the fiscal years indicated.

	Fiscal Years					
	2012		2011		2010	
Packaged meats	47	%	47	%	48	%
Fresh meats	43		42		41	
Other products (1)	10		11		11	
	100	%	100	%	100	%

(1) Includes external hog sales, feed, feathers, by-products and rendering

The International segment has sales denominated in foreign currencies and, as a result, is subject to certain currency exchange risk. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments" for a discussion of our foreign currency hedging activities.

SEGMENTS IN GENERAL

Sources and Availability of Raw Materials

Feed grains, including corn, soybean meal and wheat, are the primary raw materials of our hog production operations. These grains are readily available from numerous sources at competitive prices. We generally purchase corn and soybean meal through forward purchase contracts. Historically, grain prices have been subject to fluctuations and have escalated in recent years due to increased worldwide demand.

Live hogs are the primary raw materials of the Pork segment and our meat processing operations in the International segment. Historically, hog prices have been subject to substantial fluctuations. Hog supplies, and consequently prices, are affected by factors such as corn and soybean meal prices, weather and farmers' access to capital. Hog prices tend to rise seasonally as hog supplies decrease during the hot summer months and tend to decline as supplies increase during the fall. This tendency is due to lower farrowing performance during the winter months and slower animal growth rates during the hot summer months.

The Pork segment purchased approximately 49% of its U.S. live hog requirements from the Hog Production segment in fiscal 2012. In addition, we have established multi-year agreements with Maxwell Foods, Inc. and Prestage Farms, Inc., which provide us with a stable supply of high-quality hogs at market-indexed prices. These producers supplied approximately 11% of hogs processed by the Pork segment in fiscal 2012. We also purchase hogs on a daily basis at our Southeastern and Midwestern processing plants and our company-owned buying stations in five Midwestern states.

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Like the Pork segment, live hogs are the primary raw materials of our meat processing operations in the International segment with the primary source of hogs being our hog production operations located in Poland and Romania. Our meat processing operations in the International segment purchased approximately 73% of its live hog requirements from our hog production operations located in Poland and Romania in fiscal 2012.

We also purchase fresh pork from other meat processors to supplement our processing requirements. Additional purchases include raw beef, poultry and other meat products that are added to sausages, hot dogs and luncheon meats. Those meat products and other materials and supplies, including seasonings, smoking and curing agents, sausage casings and packaging materials, are readily available from numerous sources at competitive prices.

Nutrient Management and Other Environmental Issues

Our hog production facilities have been designed to meet or exceed all applicable zoning and other government regulations. These regulations require, among other things, maintenance of separation distances between farms and nearby residences, schools, churches, public use areas, businesses, rivers, streams and wells and adherence to required construction standards.

Hog production facilities generate significant quantities of manure, which must be managed properly to protect public health and the environment. We believe that we use the best technologies currently available and economically feasible for the management of swine manure, which require permits under state, and in some instances, federal law. The permits impose standards and conditions on the design and operation of the systems to protect public health and the environment, and can also impose nutrient management planning requirements depending on the type of system utilized. The most common system of swine manure management employed by our hog production facilities is the lagoon and spray field system, in which lined earthen lagoons are utilized to treat the manure before it is applied to agricultural fields by spray application. The nitrogen and phosphorus in the treated manure serve as a crop fertilizer.

We follow a number of other policies and protocols to reduce the impact of our hog production operations on the environment, including: the employment of environmental management systems; ongoing employee training regarding environmental controls; walk-around inspections at all sites by trained personnel; formal emergency response plans that are regularly updated; and collaboration with manufacturers regarding testing and developing new equipment. For further information see “Regulation” below.

Customers and Marketing

Our fundamental marketing strategy is to provide quality and value to the ultimate consumers of our fresh pork, packaged meats and other meat products. We have a variety of consumer advertising and trade promotion programs designed to build awareness and increase sales distribution and penetration. We also provide sales incentives for our customers through rebates based on achievement of specified volume and/or growth in volume levels.

We have significant market presence, both domestically and internationally, where we sell our fresh pork, packaged meats and other meat products to national and regional supermarket chains, wholesale distributors, the foodservice industry (fast food, restaurant and hotel chains, hospitals and other institutional customers), export markets and other further processors. We use both in-house salespersons as well as independent commission brokers to sell our products. In fiscal 2012, we sold our products to more than 3,200 customers, none of whom accounted for as much as 10% of consolidated revenues. We have no significant or seasonally variable backlog because most customers prefer to order products shortly before shipment and, therefore, do not enter into formal long-term contracts.

Methods of Distribution

We use a combination of private fleets of leased tractor trailers and independent common carriers and owner operators to distribute live hogs, fresh pork, packaged meats and other meat products to our customers, as well as to move raw materials between plants for further processing. We coordinate deliveries and use backhauling to reduce overall transportation costs. In the U.S., we distribute products directly from some of our plants and from leased distribution centers primarily in Missouri, Pennsylvania, North Carolina, Virginia, Kansas, Wisconsin, Indiana, Illinois, California, Iowa, Nebraska and Texas. We also operate distribution centers adjacent to our plants in Bladen County, North Carolina, Sioux Falls, South Dakota and Crete, Nebraska. Internationally, we distribute our products through a combination of leased and owned warehouse facilities.

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Trademarks

We own and use numerous marks, which are registered trademarks or are otherwise subject to protection under applicable intellectual property laws. We consider these marks and the accompanying goodwill and customer recognition valuable and material to our business. We believe that registered trademarks have been important to the success of our branded fresh pork and packaged meats products. In a number of markets, our brands are among the leaders in select product categories.

Seasonality

The meat processing business is somewhat seasonal in that, traditionally, the periods of higher sales for hams are the holiday seasons such as Christmas, Easter and Thanksgiving, and the periods of higher sales for smoked sausages, hot dogs and luncheon meats are the summer months. The Pork segment typically builds substantial inventories of hams in anticipation of its seasonal holiday business. In addition, the Hog Production segment experiences lower farrowing performance during the winter months and slower animal growth rates during the hot summer months resulting in a decrease in hog supplies in the summer and an increase in hog supplies in the fall.

Competition

The protein industry is highly competitive. Our products compete with a large number of other protein sources, including chicken, beef and seafood, but our principal competition comes from other pork processors.

We believe that the principal competitive factors in the pork processing industry are price, product quality and innovation, product distribution and brand loyalty. Some of our competitors are more diversified than us, especially now that we have sold our beef and turkey operations. To the extent that their other operations generate profits, these more diversified competitors may be able to support their meat processing operations during periods of low or negative profitability.

Research and Development

We conduct continuous research and development activities to develop new products and to improve existing products and processes. We incurred expenses on company-sponsored research and development activities of $75.9 million, $47.0 million and $38.8 million in fiscal 2012, 2011 and 2010, respectively.

FINANCIAL INFORMATION ABOUT SEGMENTS

Financial information for each reportable segment, including revenues, operating profit and total assets, is disclosed in Note 17 in “Item 8. Financial Statements and Supplementary Data.”

RISK MANAGEMENT AND HEDGING

We are exposed to market risks primarily from changes in commodity prices, as well as interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates. For further information see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments.”

REGULATION

Regulation in General

Like other participants in the industry, we are subject to various laws and regulations administered by federal, state and other government entities, including the United States Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the Grain Inspection, Packers and Stockyard Administration, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration, the Commodities and Futures Trading Commission and similar agencies in foreign countries.

From time to time, we receive notices and inquiries from regulatory authorities and others asserting that we are not in compliance with particular laws and regulations. In some instances, litigation ensues. In addition, individuals may initiate litigation against us.

Many of our facilities are subject to environmental permits and other regulatory requirements, violations of which are subject to civil and criminal sanction. In some cases, third parties may also have the right to sue to enforce compliance.

We use internationally recognized management systems to manage many of our regulatory programs. For example, we use the International Organization for Standardization (ISO) 14001 standard to manage and optimize environmental performance, and we were the first in the industry to achieve ISO 14001 certification for our hog production and processing facilities. ISO guidelines require a long-term management plan integrating regular third-party audits, goal setting, corrective action, documentation, and executive review. Our Environmental Management System (EMS), which conforms to the ISO 14001 standard, addresses the significant environmental aspects of our operations, provides employee training programs and facilitates engagement with local communities and regulators. Most importantly, the EMS allows the collection, analysis and reporting of relevant environmental data to facilitate our compliance with applicable environmental laws and regulations.

Water

In March 2011, the U.S. Court of Appeals for the Fifth Circuit overturned EPA's November 2008 rule requiring that confined animal feeding operations (CAFOs) that “discharge or propose to discharge” apply for permit coverage under the Clean Water Act's National Pollutant Discharge Elimination System (NPDES). The Fifth Circuit's decision (which held that only discharging CAFOs have a duty to apply for NPDES permit coverage) has clarified the extent of our obligations under the NPDES permit program. EPA has not yet proposed or finalized a rule in response to the Fifth Circuit's decision, and it is not clear whether any such action may attempt to impose additional obligations on our hog production operations.

In a related matter, in October 2011, EPA proposed a rule pursuant to the Clean Water Act and a settlement agreement with certain activist groups that would require CAFOs to provide data on their operations to the agency.

Air

During calendar year 2002, the National Academy of Sciences (the Academy) undertook a study at EPA's request to assist EPA in considering possible future regulation of air emissions from animal feeding operations. The Academy's study identified a need for more research and better information, but also recommended implementing without delay technically and economically feasible management practices to decrease emissions. Further, our hog production subsidiaries have accepted EPA's offer to enter into an administrative consent agreement and order with owners and operators of hog farms and other animal production operations. Under the terms of the consent agreement and order, participating owners and operators agreed to pay a penalty, contribute towards the cost of an air emissions monitoring study and make their farms available for monitoring. In return, participating farms have been given immunity from federal civil enforcement actions alleging violations of air emissions requirements under certain federal statutes, including the Clean Air Act. Pursuant to our consent agreement and order, we paid a $100,000 penalty to EPA. Premium Standard Farm, Inc.'s (PSF) Texas farms and company-owned farms in North Carolina also agreed to participate in this program. The National Pork Board, of which we are a member and financial contributor, paid the costs of the air emissions monitoring study on behalf of all hog producers, including us, out of funds collected from its members in previous years. The cost of the study for all hog producers was approximately $6.0 million. Monitoring under the study began in the spring 2007 and ended in the winter 2010. EPA made the data available to the public in January 2011 and also issued a Call for Information seeking additional emissions data to ensure it considers the broadest range of available scientific data as it develops improved methodologies for estimating emissions. EPA will review the data to develop emissions estimating methodologies where site-specific information is unavailable. Although EPA announced in 2010 that it anticipated making the draft emission estimation methodologies available for public comment by animal type, beginning with the methodology for broilers in early 2011, to date it has not done so. The agency anticipates finalizing the methodologies in June 2012 (fiscal 2013). New regulations governing air emissions from animal agriculture operations are likely to emerge from the monitoring program undertaken pursuant to the consent agreement and order. There can be no assurance that any new regulations that may be proposed to address air emissions from animal feeding operations will not have a material adverse effect on our financial position or results of operations.

Greenhouse Gases (GHGs) and Climate Change

In calendar year 2009, EPA finalized its Mandatory Reporting of Greenhouse Gases (GHGs) rule, which requires owners or operators of certain facilities (including facilities that contain a manure management system) that emit at least 25,000 metric tons or more of GHGs per year to report their emissions. Although EPA has not been implementing the rule as it applies to manure management systems due to a congressional restriction prohibiting the expenditure of funds for this purpose, there is no assurance that this prohibition will not be lifted in the future. Should that occur, the rule would impose additional costs on our hog production operations; however, it is not expected that such costs would have a material adverse effect on our hog production operations.

The EPA finalized regulations in calendar year 2010 under the Clean Air Act, which may trigger new source review and permitting requirements for certain sources of GHG emissions. These rulemakings are all subject to judicial appeals. There may also be changes in applicable state law pertaining to the regulation of GHGs. Several states have taken steps to require the reduction of GHGs by certain companies and public utilities, primarily through the planned development of GHG inventories and/or regional GHG cap and trade programs and targeted enforcement.

As in virtually every industry, GHG emissions occur at several points across our operations, including production, transportation and processing. Compliance with future legislation, if any, and compliance with currently evolving regulation of GHGs by EPA and the states may result in increased compliance costs, capital expenditures, and operating costs. In the event that any future compliance requirements at any of our facilities require more than the sustainability measures that we are currently undertaking to monitor emissions and improve our energy efficiency, we may experience significant increases in our costs of operation. Such costs may include the cost to purchase offsets or allowances and costs to reduce GHG emissions if such reductions are required. These regulatory changes may also lead to higher cost of goods and services which may be passed on to us by suppliers.

As an agriculture-based company, changes to the climate and weather patterns could also affect key inputs to our business as the result of shifts in temperatures, water availability, precipitation, and other factors. Both the cost and availability of corn and other feed crops, for example, could be affected. The regulation or taxation of carbon emissions could also affect the prices of commodities, energy, and other inputs to our business. We believe there could also be opportunities for us as a result of heightened interest in alternative energy sources, including those derived from manure, and participation in carbon markets. However, it is not possible at this time to predict the complete structure or outcome of any future legislative efforts to address GHG emissions and climate change, whether EPA's regulatory efforts will survive court challenge, or the eventual cost to us of compliance. There can be no assurance that GHG regulation will not have a material adverse effect on our financial position or results of operations.

E15 Ruling

In October 2010, the EPA granted a “partial waiver” to a statutory bar under the Clean Air Act prohibiting fuel manufacturers from introducing fuel additives that are not “substantially similar” to those already approved and in use for vehicles of model year (MY) 1975 or later. The EPA's decision allows fuel manufacturers to increase the ethanol content of gasoline to 15 percent (E15) for use in MY 2007 and newer light-duty motor vehicles, including passenger cars, light-duty trucks, and medium-duty passenger vehicles. In January 2011, the EPA granted another partial waiver authorizing E15 use in MY 2001-2006 light-duty motor vehicles. Prior to EPA's decisions, the ethanol content of gasoline in the United States was limited to 10 percent. These rulemakings are all subject to judicial appeals and a court decision is anticipated during calendar year 2012.

These agency actions, along with subsequent evaluations by the EPA, allow the introduction of E15 into commerce and the marketplace by manufacturers. Although the long-term impact of E15 is currently unknown, studies have shown that expanded corn-based ethanol production has driven up the price of livestock feed and led to commodity-price volatility. We cannot presently assess the full economic impact of the proposed regulations on the meat processing industry or on our operations.

Regulatory and Other Proceedings

From time to time we receive notices from regulatory authorities and others asserting that we are not in compliance with certain environmental laws and regulations. In some instances, litigation ensues.

In March 2006 (fiscal 2006), we entered into a consent decree that settled two citizen lawsuits alleging among other things violations of certain environmental laws. The consent decree provides, among other things, that our subsidiary, Murphy-Brown LLC, will undertake a series of measures designed to enhance the performance of the swine waste management systems on approximately 244 company-owned farms in North Carolina and thereby reduce the potential for surface water or ground water contamination from these farms. Murphy-Brown has successfully completed a number of the measures called for in the consent decree and expects to fulfill its remaining consent degree obligations over the next year, at which time it will move for termination of the decree.

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 farm operations. PSF has successfully completed measures called for in the state judgment, in part, by installing “Next Generation Technology” and expects to move for termination of the judgment within calendar year 2012. PSF has also completed a number of the measures called for in the federal consent decree and expects to fulfill its remaining consent degree obligations over the next year, at which time it will move for termination of the decree.

Environmental Stewardship

In July 2000, in furtherance of our continued commitment to responsible environmental stewardship, we and our North Carolina-based hog production subsidiaries voluntarily entered into an agreement with the Attorney General of North Carolina (the Agreement) designed to enhance water quality in the State of North Carolina through a series of initiatives to be undertaken by us and our subsidiaries while protecting access to swine operations in North Carolina. One of the features of the Agreement reflects our commitment to preserving and enhancing the environment of eastern North Carolina by providing a total of $50.0 million to assist in the preservation of wetlands and other natural areas in eastern North Carolina and to promote similar environmental enhancement activities. To fulfill our commitment, we made annual contributions of $2.0 million beginning in fiscal 2001 through fiscal 2010. Due to the losses we were experiencing in our Hog Production segment in fiscal 2010, we entered into an agreement with the Attorney General of North Carolina to defer our annual payments in fiscal 2011 and fiscal 2012. This agreement does not reduce our $50.0 million commitment, and we expect to re-start our annual $2.0 million payment in fiscal 2013.

Animal Care

More than a decade ago, Smithfield developed and implemented a comprehensive, systematic animal care management program to monitor and measure the well-being of pigs on company-owned and contract farms. Developed in consultation with two of the world's foremost experts in animal behavior and handling, this system continues to guide our operations today. Our animal care management program guides the proper and humane care of our animals at every stage of their lives, from gestation to transport to processing plant. All farm employees and contract hog producers must employ the methods and techniques of the management system and take steps to verify their compliance. Adherence to proper animal welfare management is a condition of our agreements with contract producers.

Our Animal Care Policy underscores the company's commitments to providing the following:

- shelter that is designed, maintained, and operated to meet the animals' needs;
- access to adequate water and high-quality feed to meet nutritional requirements;
- humane treatment of animals that enhances their well-being and complies with all applicable laws and regulations;
- identification and appropriate treatment of animals in need of health care; and
- use of humane methods to euthanize sick or injured animals not responding to care and treatment.

Several years ago, we volunteered to provide input and recommendations to help the National Pork Board enhance its animal care management program for all pork producers. That program, which includes many of the tenets of our own guidelines, became the National Pork Board's Pork Quality Assurance Plus (PQA Plus®) program. A pork producer becomes PQA Plus certified only after staff attend training sessions on good production practices (which includes topics such as responsible animal handling, disease prevention, biosecurity, responsible antibiotic use, and appropriate feeding). Farms entered into the program undergo on-farm site assessments and are subject to random third-party audits. We obtained certification of all company-owned and contract farms under the PQA Plus program by the end of calendar year 2009.

Smithfield was also one of the founding adopters of the National Pork Board's “We Care” program, which demonstrates that pork producers are accountable to established ethical principles and animal well-being practices.

At all of our slaughter facilities, we also use a systematic approach that includes the following:
an animal welfare and humane handling manual;
a comprehensive training program; and
an auditing system with internal verification and third-party audits.
Our plants all have developed quality programs following the standards set in the U.S. Department of Agriculture's Process Verified Program (PVP), as described elsewhere in this report. Our PVP programs monitor aspects of traceability, country of origin, PQA Plus® adherence on farms, and Transport Quality Assurance status of drivers.
In January 2007 (fiscal 2007), we announced a voluntary, ten-year program to phase out individual gestation stalls at our company-owed sow farms and replace the gestation stalls with group pens. We currently estimate the total cost of our transition to group pens to be approximately $300.0 million. This program represents a significant financial commitment and reflects our desire to be more animal friendly, as well as to address the concerns and needs of our customers. As of the end of calendar year 2011, we completed conversions to group housing for over 30% of our sows on company-owned farms. We will continue the conversion as planned with the objective of completing conversions for all sows on company-owned farms by the end of 2017.
EMPLOYEES
The following table shows the approximate number of our employees and the approximate number of employees covered by collective bargaining agreements or that are members of labor unions in each segment, as of April 29, 2012:

Segment	Employees	Employees Covered by Collective Bargaining Agreements (1)
Pork	30,900	17,900
International	10,000	2,650
Hog Production	5,000	—
Corporate	150	—
Totals	46,050	20,550

(1) Includes employees that are members of labor unions.
Approximately 8,780 are covered by collective bargaining agreements that expire in fiscal 2013. Collective bargaining agreements covering other employees expire over periods throughout the next several years. We believe that our relationship with our employees is satisfactory.
FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS
See Note 17 in “Item 8. Financial Statements and Supplementary Data” for financial information about geographic areas. See “Item 1A. Risk Factors” for a discussion of the risks associated with our international sales and operations.
AVAILABLE INFORMATION
Our website address is www.smithfieldfoods.com. The information on our website is not part of this annual report. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after filing or furnishing the material to the SEC. You may read and copy documents we file at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including us) file electronically with the SEC. The SEC’s website is www.sec.gov.

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The risk factors below represent what we believe are the known material risk factors with respect to us and our business. Any of the following risks could materially adversely affect our business, operations, industry, financial position or future financial results.

Our results of operations are cyclical and could be adversely affected by fluctuations in the commodity prices for hogs and grains.

We are largely dependent on the cost and supply of hogs and feed ingredients and the selling price of our products and competing protein products, all of which are determined by constantly changing and volatile market forces of supply and demand as well as other factors over which we have little or no control. These other factors include:

- competing demand for corn for use in the manufacture of ethanol or other alternative fuels,
- environmental and conservation regulations,
- import and export restrictions such as trade barriers resulting from, among other things, health concerns,
- economic conditions,
- weather, including weather impacts on our water supply and the impact on the availability and pricing of grains,
- energy prices, including the effect of changes in energy prices on our transportation costs and the cost of feed, and
- crop and livestock diseases.

We cannot assure you that all or part of any increased costs experienced by us from time to time can be passed along to consumers of our products, in a timely manner or at all.

Hog prices demonstrate a cyclical nature over periods of years, reflecting the supply of hogs on the market. These fluctuations can be significant as shown in recent years with average domestic live hog prices going from $44 per hundredweight in fiscal 2010 to $65 per hundredweight in fiscal 2012. Further, hog raising costs are largely dependent on the fluctuations of commodity prices for corn and other feed ingredients. For example, our fiscal 2012 results of operations were negatively impacted by higher feed and feed ingredient costs which increased hog raising costs to $64 per hundredweight in fiscal 2012 from $54 per hundred weight in the prior year, or 18%. When hog prices are lower than our hog production costs which occurred in both fiscal 2009 and 2010, our non-vertically integrated competitors may have a cost advantage.

Additionally, commodity pork prices demonstrate a cyclical nature over periods of years, reflecting changes in the supply of fresh pork and competing proteins on the market, especially beef and chicken.

We attempt to manage certain of these risks through the use of our risk management and hedging programs. However, these programs may also limit our ability to participate in gains from favorable commodity fluctuations. For example, we ensured availability of grain supplies in the summer of 2008 through the end of fiscal 2009 by locking in corn at approximately $6 per bushel through this period. As a result, our feed costs remained at these high levels through the end of fiscal 2009 despite the decrease in the price of corn on the commodities markets during such period. The high cost of feed, in particular corn, and the impact of these hedges were principal factors in making the Hog Production segment unprofitable during fiscal 2009 and fiscal 2010. Additionally, a portion of our commodity derivative contracts are marked-to-market such that the related unrealized gains and losses are reported in earnings on a quarterly basis. This accounting treatment may cause significant volatility in our quarterly earnings. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments" for further information.

Outbreaks of disease among or attributed to livestock can significantly affect production, the supply of raw materials, demand for our products and our business.

We take precautions to ensure that our livestock are healthy and that our processing plants and other facilities operate in a sanitary manner. Nevertheless, we are subject to risks relating to our ability to maintain animal health and control diseases. Livestock health problems could adversely impact production, the supply of raw materials and consumer confidence in all of our operating segments.

From time to time, we have experienced outbreaks of certain livestock diseases and we may experience additional occurrences of disease in the future. Disease can reduce the number of offspring produced, hamper the growth of livestock to finished size, result in expensive vaccination programs and require in some cases the destruction of infected livestock, all of which could adversely affect our production or ability to sell or export our products. Adverse publicity concerning any disease or health concern could also cause customers to lose confidence in the safety and quality of our food products, particularly as we expand our branded pork products. In addition to risks associated with maintaining the health of our livestock, any outbreak of disease elsewhere in the U.S. or in other countries could reduce consumer confidence in the meat products affected by the particular disease, generate adverse publicity, depress market conditions for our hogs internationally and/or domestically and result in the imposition of import or export restrictions.

Outbreaks of disease among or attributed to livestock also may have indirect consequences that adversely affect our business. For example, past outbreaks of avian influenza in various parts of the world reduced the global demand for poultry and thus created a temporary surplus of poultry both domestically and internationally. This poultry surplus placed downward pressure on poultry prices which in turn reduced meat prices including pork both in the U.S. and internationally.

Any perceived or real health risks related to our products or the food industry generally or increased regulation could adversely affect our ability to sell our products.

We are subject to risks affecting the food industry generally, including risks posed by the following:

food spoilage or food contamination,

evolving consumer preferences and nutritional and health-related concerns,

consumer product liability claims,

product tampering,

the possible unavailability and expense of product liability insurance, and

the potential cost and disruption of a product recall.

Adverse publicity concerning any perceived or real health risk associated with our products could also cause customers to lose confidence in the safety and quality of our food products, which could adversely affect our ability to sell our products, particularly as we expand our branded products business. We could also be adversely affected by perceived or real health risks associated with similar products produced by others to the extent such risks cause customers to lose confidence in the safety and quality of such products generally and, therefore, lead customers to opt for other meat options that are perceived as safe. The A(H1N1) influenza outbreak that occurred in late fiscal 2009 and early fiscal 2010 illustrates the adverse impact that can result from perceived health risks associated with the products we sell. Although the CDC and other regulatory and scientific bodies indicated that people cannot get A(H1N1) influenza from eating cooked pork or pork products, the perception of some consumers that the disease could be transmitted in that manner was the apparent cause of the temporary decline in pork consumption in late fiscal 2009 and early fiscal 2010.

Our products are susceptible to contamination by disease producing organisms or pathogens, such as Listeria monocytogenes, Salmonella, Campylobacter and generic E. coli. Because these organisms and pathogens are generally found in the environment, there is a risk that one or more, as a result of food processing, could be present in our products. We have systems in place designed to monitor food safety risks throughout all stages of our vertically integrated process. However, we cannot assure you that such systems, even when working effectively, will eliminate the risks related to food safety. These organisms and pathogens can also be introduced to our products as a result of improper handling at the further processing, foodservice or consumer level. In addition to the risks caused by our processing operations and the subsequent handling of the products, we may encounter the same risks if any third party tampers with our products. We could be required to recall certain of our products in the event of contamination or adverse test results. Any product contamination also could subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales as customers lose confidence in the safety and quality of our food products. Any of these events could have an adverse impact on our operations and financial results.

Our manufacturing facilities and products, including the processing, packaging, storage, distribution, advertising and labeling of our products, are subject to extensive federal, state and foreign laws and regulations in the food safety area, including constant government inspections and governmental food processing controls. Loss of or failure to obtain necessary permits and registrations could delay or prevent us from meeting current product demand, introducing new products, building new facilities or acquiring new businesses and could adversely affect operating results. If we are found to be out of compliance with applicable laws and regulations, particularly if it relates to or compromises food safety, we could be subject to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have an adverse effect on our financial results. In addition, future material changes in food safety regulations could result in increased operating costs or could be required to be implemented on schedules that cannot be met without interruptions in our operations.

Environmental regulation and related litigation and commitments could have a material adverse effect on us.

Our past and present business operations and properties are subject to extensive and increasingly stringent federal, state, local and foreign laws and regulations pertaining to protection of the environment, including among others:

the treatment and discharge of materials into the environment,

the handling and disposition of manure and solid wastes and

the emission of greenhouse gases.

Failure to comply with these laws and regulations or any future changes to them may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. Some requirements applicable to us may also be enforced by citizen groups or other third parties. Natural disasters, such as flooding and hurricanes, can cause the discharge of effluents or other waste into the environment, potentially resulting in our being subject to further liability claims and governmental regulation as has occurred in the past. See “Item 1. Business—Regulation” for further discussion of regulatory compliance as it relates to environmental risk. We have incurred, and will continue to incur, significant capital and operating expenditures to comply with these laws and regulations.

We also face the risk of lawsuits based on the law of nuisance even if we are operating in compliance with applicable regulations. Before we acquired PSF and subsequent to our acquisition of PSF, certain nuisance suits in Missouri resulted in jury verdicts against PSF. Currently, we are defending a number of additional nuisance suits with respect to farms in Missouri. See “Item 3. Legal Proceedings—Missouri litigation.” Although we have made substantial progress to toward consummation of a global settlement that would resolve the vast majority of the nuisance litigation, we cannot assure you that the settlement will be consummated, that additional nuisance claims will not arise in the future or that the accruals for this litigation will not have to be substantially increased in the event the settlement is not consummated and our continuing defense of these claims is not successful.

In addition, new environmental issues could arise that would cause currently unanticipated investigations, assessments or expenditures.

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 addition, Congress has in the past 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.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As of April 29, 2012, we had:

approximately $2.0 billion of indebtedness;

guarantees of up to $87.0 million for the financial obligations of certain unconsolidated joint ventures and hog farmers;

guarantees of $11.3 million for leases that were transferred to JBS in connection with the sale of Smithfield Beef; and

aggregate unused capacity available totaling approximately $1.1 billion under (1) our inventory based revolving credit facility up to $925 million, with an option to expand up to $1.2 billion (the Inventory Revolver), (2) our accounts receivable securitization facility up to $275 million (the Securitization Facility) and (3) our other credit facilities, such total taking into account outstanding borrowings of $64.9 million and $96.1 million of outstanding letters of credit under the Securitization Facility.

Because the borrowing capacity under the Inventory Revolver and Securitization Facility depend, in part, on inventory and accounts receivable levels, respectively, that fluctuate from time to time, such amounts may not reflect actual borrowing capacity.

Our indebtedness may increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures and potential acquisitions or joint ventures. In addition, due to the volatile nature of the commodities markets, we may have to borrow significant amounts to cover any margin calls under our risk management and hedging programs. During fiscal 2012, margin deposits posted by us ranged from $(32.9) million to $115.0 million (negative amounts representing margin deposits we have received from our brokers). Our consolidated indebtedness level could significantly affect our business because:

it may, together with the financial and other restrictive covenants in the agreements governing our indebtedness, limit or impair our ability in the future to obtain financing, refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and materially impair our liquidity,

a downgrade in our credit rating could restrict or impede our ability to access capital markets at attractive rates and increase the cost of future borrowings,

it may reduce our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise,

a portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes, which amount would increase if prevailing interest rates rise,

substantially all of our assets in the United States secure the Inventory Revolver, the Securitization Facility, our $200.0 million term loan due June 9, 2016 (the Rabobank Term Loan) and our outstanding senior secured notes, all of which could limit our ability to dispose of such assets or utilize the proceeds of such dispositions and, upon an event of default under any such secured indebtedness, the lenders thereunder could foreclose upon our pledged assets, and

it could make us more vulnerable to downturns in general economic or industry conditions or in our business.

Further, our debt agreements restrict the payment of dividends to shareholders and, under certain circumstances, may limit additional borrowings, investments, the acquisition or disposition of assets, mergers and consolidations, transactions with affiliates, the creation of liens and the repayment of certain debt.

Should market conditions deteriorate, or our operating results be depressed in the future, we may have to request amendments to our covenants and restrictions. There can be no assurance that we will be able to obtain such relief should it be needed in the future. A breach of any of these covenants or restrictions could result in a default that would permit our senior lenders, including lenders under the Inventory Revolver, the Securitization Facility, the Rabobank Term Loan, the holders of our senior secured notes or the holders of our senior unsecured notes, as the case may be, to declare all amounts outstanding under the Inventory Revolver, the Securitization Facility, the Rabobank Term Loan, the senior secured notes or the senior unsecured notes to be due and payable, together with accrued and unpaid interest, and the commitments of the relevant lenders to make further extensions of credit under the Inventory Revolver and the Securitization Facility could be terminated. If we were unable to repay our secured indebtedness to our lenders, these lenders could proceed against the collateral securing that indebtedness, which could include substantially all of our assets. Our future ability to comply with financial covenants and other conditions, make scheduled payments of principal and interest, or refinance existing borrowings depends on future business performance that is subject to economic, financial, competitive and other factors, including the other risks set forth in this Item 1A.

We may not be successful in implementing and executing on our hog production cost savings initiative.

In fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations. The Cost Savings Initiative includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, and 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. We can provide no assurance, however, that the Cost Savings Initiative will result in the expected profitability improvement in our Hog Production segment.

Our operations are subject to the risks associated with acquisitions and investments in joint ventures.

From time to time we review opportunities for strategic growth through acquisitions. We have also pursued and may in the future pursue strategic growth through investment in joint ventures. These acquisitions and investments may involve large transactions or realignment of existing investments. These transactions present financial, managerial and operational challenges, including:

- diversion of management attention from other business concerns,
- difficulty with integrating businesses, operations, personnel and financial and other systems,
- lack of experience in operating in the geographical market of the acquired business,
- increased levels of debt potentially leading to associated reduction in ratings of our debt securities and adverse impact on our various financial ratios,
- the requirement that we periodically review the value at which we carry our investments in joint ventures, and, in the event we determine that the value at which we carry a joint venture investment has been impaired, the requirement to record a non-cash impairment charge, which charge could substantially affect our reported earnings in the period of such charge, would negatively impact our financial ratios and could limit our ability to obtain financing in the future,
- potential loss of key employees and customers of the acquired business,
- assumption of and exposure to unknown or contingent liabilities of acquired businesses,
- potential disputes with the sellers, and
- for our investments, potential lack of common business goals and strategies with, and cooperation of, our joint venture partners.

In addition, acquisitions outside the U.S. may present unique difficulties and increase our exposure to those risks associated with international operations.

We could experience financial or other setbacks if any of the businesses that we have acquired or may acquire in the future have problems of which we are not aware or liabilities that exceed expectations.

Our numerous equity investments in joint ventures, partnerships and other entities, both within and outside the U.S., are periodically involved in modifying and amending their credit facilities and loan agreements. The ability of these entities to refinance or amend their facilities on a successful and satisfactory basis, and to comply with the covenants in their financing facilities, affects our assessment of the carrying value of any individual investment. As of April 29, 2012, none of our equity investments represented more than 6% of our total consolidated assets. If we determine in the future that an investment is impaired, we would be required to record a non-cash impairment charge, which could substantially affect our reported earnings in the period of such charge. In addition, any such impairment charge would negatively impact our financial ratios and could limit our ability to obtain financing in the future. See “Item 8. Notes to Consolidated Financial Statements—Note 6: Investments” for a discussion of the accounting treatment of our equity investments.

We are subject to risks associated with our international sales and operations.

Sales to international customers accounted for approximately 24% of our net sales in fiscal 2012. We conduct foreign operations in Poland, Romania and the United Kingdom and export our products to more than 40 countries. In addition, we are engaged in joint ventures in Mexico and have a significant investment in Western Europe. As of April 29, 2012, approximately 28% of our long-lived assets were associated with our foreign operations. Because of the growing market share of U.S. pork products in the international markets, U.S. exporters are increasingly being affected by measures taken by importing countries to protect local producers.

Our international sales, operations and investments are subject to various risks related to economic or political uncertainties including among others:

- general economic and political conditions,
- imposition of tariffs, quotas, trade barriers and other trade protection measures imposed by foreign countries,
- the closing of borders by foreign countries to the import of our products due to animal disease or other perceived health or safety issues,
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations,
- different regulatory structures and unexpected changes in regulatory environments,
- tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation,
- potentially negative consequences from changes in tax laws, and
- distribution costs, disruptions in shipping or reduced availability of freight transportation.

Furthermore, our foreign operations are subject to the risks described above as well as additional risks and uncertainties including among others:

- fluctuations in currency values, which have affected, among other things, the costs of our investments in foreign operations,
- translation of foreign currencies into U.S. dollars, and
- foreign currency exchange controls.

Negative consequences relating to these risks and uncertainties could jeopardize or limit our ability to transact business in one or more of those markets where we operate or in other developing markets and could adversely affect our financial results.

Our operations are subject to the general risks of litigation.

We are involved on an ongoing basis in litigation arising in the ordinary course of business or otherwise. Trends in litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, employment, antitrust, securities or environmental matters. Moreover, the process of litigating cases, even if we are successful, may be costly, and may approximate the cost of damages sought. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and/or customer preference for our products. Litigation trends and expenses and the outcome of litigation cannot be predicted with certainty and adverse litigation trends, expenses and outcomes could adversely affect our financial results.

We depend on availability of, and satisfactory relations with, our employees.

As of April 29, 2012, we had approximately 46,050 employees, 20,550 of whom are covered by collective bargaining agreements or are members of labor unions. Our operations depend on the availability, retention and relative costs of labor and maintaining satisfactory relations with employees and the labor unions. Further, employee shortages can and do occur, particularly in rural areas where some of our operations are located. Labor relations issues arise from time to time, including issues in connection with union efforts to represent employees at our plants and with the negotiation of new collective bargaining agreements. If we fail to maintain satisfactory relations with our employees or with the labor unions, we may experience labor strikes, work stoppages or other labor disputes. Negotiation of collective bargaining agreements also could result in higher ongoing labor costs. In addition, the discovery by us or governmental authorities of undocumented workers, as has occurred in the past, could result in our having to attempt to replace those workers, which could be disruptive to our operations or may be difficult to do.

Immigration reform continues to attract significant attention in the public arena and the U.S. Congress. If new immigration legislation is enacted, such laws may contain provisions that could increase our costs in recruiting, training and retaining employees. Also, although our hiring practices comply with the requirements of federal law in reviewing employees' citizenship or authority to work in the U.S., increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations at one or more of our facilities, thereby negatively impacting our business.

We cannot assure you that these activities or consequences will not adversely affect our financial results in the future.

The continued consolidation of customers could negatively impact our business.

Our ten largest customers represented approximately 29% of net sales for fiscal 2012. We do not have long-term sales agreements (other than to certain third-party hog customers) or other contractual assurances as to future sales to these major customers. In addition, continued consolidation within the retail industry, including among supermarkets, warehouse clubs and food distributors, has resulted in an increasingly concentrated retail base and increased our credit exposure to certain customers. Our business could be materially adversely affected and suffer significant set backs in sales and operating income from the loss of some of our larger customers or if our larger customers' plans, markets, and/or financial condition should change significantly.

An impairment in the carrying value of goodwill could negatively impact our consolidated results of operations and net worth.

Goodwill is recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators arise. In evaluating the potential for impairment of goodwill, we make assumptions regarding future operating performance, business trends, and market and economic conditions. Such analyses further require us to make judgmental assumptions about sales, operating margins, growth rates, and discount rates. There are inherent uncertainties related to these factors and to management's judgment in applying these factors to the assessment of goodwill recoverability. Goodwill reviews are prepared using estimates of the fair value of reporting units based on market multiples of EBITDA (earnings before interest, taxes, depreciation and amortization) and/or on the estimated present value of future discounted cash flows. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or market capitalization declines. For example, at the end of the third quarter of fiscal 2009, we performed an interim test of the carrying amount of goodwill related to our U.S. hog production operations. We undertook this test due to the significant losses incurred in our hog production operations and decline in the market price of our common stock at that time. We determined that the fair value of our U.S. hog production reporting unit exceeded its carrying value by more than 20%. Therefore goodwill was not impaired. However, these types of events and the resulting analyses could result in non-cash goodwill impairment charges in the future.

Impairment charges could substantially affect our reported earnings in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. As of April 29, 2012, we had $768.2 million of goodwill, which represented approximately 10% of total assets.

Deterioration of economic conditions could negatively impact our business.

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of and access to capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Any such changes could adversely affect the demand for our products or the cost and availability of our needed raw materials, cooking ingredients and packaging materials, thereby negatively affecting our financial results.

Disruptions and instability in credit and other financial markets and deterioration of national and global economic conditions, could, among other things:

- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future;
- cause our lenders to depart from prior credit industry practice and make more difficult or expensive the granting of any technical or other waivers under our credit agreements to the extent we may seek them in the future;
- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts, non-performance by suppliers or counterparty failures negatively impacting our treasury operations;
- negatively impact global demand for protein products, which could result in a reduction of sales, operating income and cash flows;
- decrease the value of our investments in equity and debt securities, including our company-owned life insurance and pension plan assets, which could result in higher pension cost and statutorily mandated funding requirements; and
- impair the financial viability of our insurers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The following table lists our material plants and other physical properties. Based on a five day week, our weekly domestic pork slaughter capacity was 549,000 head, and our domestic packaged meats capacity was 63.7 million pounds, as of April 29, 2012. During fiscal 2012, the average weekly capacity utilization for pork slaughter and packaged meats was 97% and 82%, respectively. We believe these properties are adequate and suitable for our needs.

Location [1]	Segment	Operation
Smithfield Packing Plant Bladen County, North Carolina	Pork	Slaughtering and cutting hogs
Smithfield Packing Plant Smithfield, Virginia	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
Smithfield Packing Plant Kinston, North Carolina	Pork	Production of boneless cooked hams, deli hams and sliced deli products
Smithfield Packing Plant Clinton, North Carolina	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
Smithfield Packing Plant [2] Landover, Maryland	Pork	Production of smoked hams
Smithfield Packing Plant Wilson, North Carolina	Pork	Production of bacon
Smithfield Packing Plant Portsmouth, Virginia	Pork	Production of hot dogs and luncheon meats
John Morrell Plant Sioux Falls, South Dakota	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
John Morrell Plant Springdale, OH	Pork	Production of hot dogs and luncheon meats
Curly’s Foods, Inc. Plant (operated by John Morrell) Sioux City, Iowa	Pork	Production of raw and cooked ribs and other BBQ items
Armour-Eckrich Meats (operated by John Morrell) St. Charles, Illinois	Pork	Production of bulk and sliced dry sausages
Armour-Eckrich Meats (operated by John Morrell) Omaha, Nebraska	Pork	Production of bulk and sliced dry sausages
Armour-Eckrich Meats (operated by John Morrell) Peru, Indiana	Pork	Production of pre-cooked bacon

Armour-Eckrich Meats (operated by John Morrell) Junction City, Kansas	Pork	Production of smoked sausage

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Location [1]	Segment	Operation
Armour-Eckrich Meats (operated by John Morrell) Mason City, Iowa	Pork	Production of boneless bulk and sliced ham products
Armour-Eckrich Meats (operated by John Morrell) St. James, Minnesota	Pork	Production of sliced luncheon meats
Farmland Plant Crete, Nebraska	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
Farmland Plant Monmouth, Illinois	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
Farmland Plant Denison, Iowa	Pork	Slaughtering and cutting hogs; fresh and packaged pork products
Farmland Plant Milan, Missouri	Pork	Slaughtering and cutting hogs; fresh pork
Farmland Plant Wichita, Kansas	Pork	Production of hot dogs and luncheon meats
Cook's Hams Plant (operated by Farmland Foods) Lincoln, Nebraska	Pork	Production of smoked hams and other smoked meats
Cook's Hams Plant (operated by Smithfield Packing) Grayson, Kentucky	Pork	Production of spiral hams and smoked ham products
Cook's Hams Plant (operated by Farmland Foods) Martin City, Missouri	Pork	Production of spiral hams
Patrick Cudahy Plant (operated by John Morrell) Cudahy, Wisconsin	Pork	Production of bacon, dry sausage and refinery products
Animex Plant Szczecin, Poland	International	Slaughtering and deboning hogs; production of packaged and other pork products
Animex Plant Ilawa, Poland	International	Production of fresh meat and packaged products
Animex Plant Starachowice, Poland	International	Slaughtering and deboning hogs; production of packaged and other pork products

Animex Plant Elk, Poland	International	Slaughtering and deboning hogs; production of packaged and other pork products
Animex Plant Morliny, Poland	International	Production of packaged and other pork and beef products

Location [1]	Segment	Operation
Smithfield Prod Plants Timisoara, Romania	International	Deboning, slaughtering and rendering hogs
Corporate Headquarters Smithfield, Virginia	Corporate	Management and administrative support services for other segments

(1) Substantially all of our Pork segment facilities are pledged as collateral under our credit facilities.
(2) Facility is leased.

The Hog Production segment owns and leases numerous hog production and grain storage facilities, as well as feedmills, mainly in North Carolina, Utah, Missouri and Virginia, with additional facilities in Oklahoma, Colorado, Texas, Iowa, Illinois, South Carolina and Pennsylvania. A substantial number of these owned facilities are pledged under our credit facilities.

Also, the International segment owns and leases numerous hog production and grain storage facilities, as well as feedmills, in Poland and Romania.

ITEM 3. LEGAL PROCEEDINGS

We and certain of our subsidiaries are parties to the environmental litigation matters discussed in “Item 1. Business—Regulation” above. Apart from those matters and the matters listed below, we and our affiliates are parties to various lawsuits arising in the ordinary course of business. In the opinion of management, any ultimate liability with respect to the ordinary course matters will not have a material adverse effect on our financial position or results of operations.

MISSOURI LITIGATION

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 Continental Grain Company (CGC) of our common stock, CGC beneficially owned approximately 7.9% of our common stock as of June 15, 2010 (based on a Schedule 13D/A filed by CGC on June 16, 2010). Pursuant to a pre-existing arrangement, PSF is obligated to indemnify CGC for certain liabilities, if any, resulting from the Missouri litigation.

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 those 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. PSF appealed the jury verdict but was unsuccessful.

The next Adwell trial, which will resolve the claims of up to 28 plaintiffs who live near Scott Colby farm, has been scheduled to commence on February 4, 2013, and discovery is ongoing.

In May 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, an additional nuisance suit was filed in the Circuit Court of Daviess County, Missouri entitled Steve Hanes, et al. v. PSF, et al. Plaintiffs asserted personal injury and property damage claims and sought recovery of an unspecified amount of compensatory and punitive damages, costs and attorneys' fees, as well as injunctive relief. On March 7, 2012, the Steve Hanes case was dismissed by the court for lack of prosecution. The dismissal was without prejudice, so the case may be re-filed.

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. On June 28, 2007, the court entered an order granting defendants' motion to transfer venue to the northern Missouri counties in which the alleged injuries occurred. As a result of those rulings, the claims of all but seven of the plaintiffs have been transferred to the appropriate venues 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. 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. In Amended Petitions filed in Chariton, Linn and DeKalb counties, plaintiffs added claims of negligence and also claim that defendants are liable for the alleged negligence of several contract grower farms. Trial for one of the Herrold cases pending in Harrison County, Engel, et al. v. PSF, et al., which involves the claims of four plaintiffs, has been scheduled to commence on October 9, 2012, and discovery is now proceeding in the Engel case as well as several other Herrold cases.

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. Two of the four plaintiffs settled their claims; PSF purchased their property for $285,000 in exchange for a full release. A third plaintiff is deceased, leaving a single plaintiff in the case. The remaining 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. Trial for the claims of the 11 plaintiffs remaining in the Cooper case has been scheduled to commence on May 1, 2013, 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 and two of our subsidiaries, PSF and KC2 Real Estate LLC were named as defendants. In August 2008, plaintiffs filed a second Petition adding one employee as a defendant. 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.

During fiscal 2012 and continuing in the first quarter of fiscal 2013, we engaged in global settlement negotiations with counsel representing nearly all of the plaintiffs in the nuisance litigation and numerous carriers of commercial general liability and pollution liability policies. The parties to the litigation have made substantial progress toward consummation of a global settlement that would resolve the vast majority of the nuisance litigation, including all pending cases described above with the exception of the McDaniel case. However, there are significant contingencies that must be fulfilled before the settlement is consummated, and we cannot make any assurance that those contingencies will be satisfied. In addition, we have agreements with the insurance carriers under which we receive payments that we contribute to pay a portion of the settlement, most of which are contingent on the consummation of the global settlement. See “Item 8. Financial Statements and Supplementary Data—Note 16: Regulation and Contingencies” for a further discussion.

In the event that the global settlement is not consummated, we believe we have good defenses to all of the actions described above and intend to defend vigorously these suits.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table shows the name and age, position and business experience during the past five years of each of our executive officers. The board of directors elects executive officers to hold office until the next annual meeting of the board of directors, until their successors are elected or until their resignation or removal.

Name and Age	Position	Business Experience During Past Five Years
C. Larry Pope (57)	President and Chief Executive Officer	Mr. Pope was elected President and Chief Executive Officer in June 2006, effective September 1, 2006. Mr. Pope served as President and Chief Operating Officer from October 2001 to September 2006.
Robert W. Manly, IV (59)	Executive Vice President and Chief Financial Officer	Mr. Manly was elected Executive Vice President in August 2006 and was named to the additional position of Chief Financial Officer, effective July 1, 2008. He also served as Interim Chief Financial Officer from January 2007 to June 2007. Prior to August 2006, he was President since October 1996 and Chief Operating Officer since June 2005 of PSF. Mr. Manly will also assume the role of President of Murphy-Brown in July 2012.
Joseph W. Luter, IV (47)	Executive Vice President	Mr. Luter was elected Executive Vice President in April 2008 concentrating on sales and marketing. He served as President of Smithfield Packing from November 2004 to April 2008. Mr. Luter is the son of Joseph W. Luter, III, Chairman of the Board of Directors.
Dhamu Thamodaran (57)	Executive Vice President and Chief Commodity Hedging Officer	Mr. Thamodaran was elected Executive Vice President and Chief Commodity Hedging Officer in July 2011. He was named Senior Vice President and Chief Commodity Hedging Officer in June 2008. Prior to these appointments, Mr. Thamodaran served as Vice President, Price Risk Management.
Dennis H. Treacy (57)	Executive Vice President, Corporate Affairs, and Chief Sustainability Officer	Mr. Treacy was elected Executive Vice President, Corporate Affairs, and Chief Sustainability Officer in October 2011. He was named Senior Vice President of Corporate Affairs and Chief Sustainability Officer in February 2010. Prior to these appointments, Mr. Treacy served as Vice President, Environmental and Corporate Affairs.
George H. Richter (67)	President and Chief Operating Officer, Pork Group	Mr. Richter was elected President and Chief Operating Officer, Pork Group in April 2008. Mr. Richter served as President of Farmland Foods from October 2003 to April 2008.

Michael E. Brown (53)	President of Farmland Foods	Mr. Brown was elected President of Farmland Foods in October 2010. He served as President of Armour-Eckrich and Executive Vice President of John Morrell Food Group from 2006 to October 2010.
Timothy O. Schellpeper (47)	President of Smithfield Packing	Mr. Schellpeper was elected President of Smithfield Packing in April 2008. He was Senior Vice President of Operations at Farmland Foods from August 2005 to April 2008.
Joseph B. Sebring (65)	President of John Morrell	Mr. Sebring has served as President of John Morrell since May 1994.
Jerry H. Godwin (65)	President of Murphy-Brown	Mr. Godwin has served as President of Murphy-Brown since April 2001. Mr. Godwin will retire from the Company in July 2012.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock trades on the New York Stock Exchange under the symbol "SFD". The following table shows the high and low sales price of our common stock for each quarter of fiscal 2012 and fiscal 2011.

	2012		2011	
	High	Low	High	Low
First quarter	$23.85	$18.81	$19.17	$13.34
Second quarter	23.95	17.79	17.34	14.04
Third quarter	25.12	21.75	21.25	15.93
Fourth quarter	24.23	20.04	24.93	19.69

HOLDERS

As of June 13, 2012 there were approximately 885 record holders of our common stock.

DIVIDENDS

We have never paid a cash dividend on our common stock. In addition, the terms of certain of our debt agreements limit the payment of any cash dividends on our common stock. We would only pay cash dividends from assets legally available for that purpose, and payment of cash dividends would depend on our financial condition, results of operations, current and anticipated capital requirements, restrictions under then existing debt instruments and other factors then deemed relevant by the board of directors.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 30, 2012 to February 29, 2012	—	n/a	n/a	$139,437,442
March 1, 2012 to March 29, 2012	1,733,527 (2)	$ 22.29	1,724,834	$101,004,176
March 30, 2012 to April 29, 2012	1,936,327	$ 20.81	1,936,327	$60,702,809
Total	3,669,854	$ 21.53	3,661,161	$60,702,809

(1) On June 16, 2011, we announced that our board of directors had approved a share repurchase program authorizing the Company to buy up to $150,000,000 of its common stock. In September 2011, our board of directors approved a $100,000,000 increase to the authorized amount. This share repurchase program is set to expire on June 16, 2013. In June 2012 our board of directors approved a new share repurchase program to buy up to $250 million of the Company's stock in addition to the previous authorizations. See Note 20 in "Item 8. Financial Statements and Supplementary Data" for additional information.

(2) Purchases of 8,693 shares were made in open market transactions by Wells Fargo, as trustee, and these 8,693 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 6. SELECTED FINANCIAL DATA

The following table shows selected consolidated financial data and other operational data for the fiscal years indicated. The financial data was derived from our audited consolidated financial statements. You should read the information in conjunction with "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Years				
	2012	2011	2010	2009	2008
	(in millions, except per share data)				
Statement of Income Data:					
Sales	$13,094.3	$12,202.7	$11,202.6	$12,487.7	$11,351.2
Cost of sales	11,544.9	10,488.6	10,472.5	11,863.1	10,202.8
Gross profit	1,549.4	1,714.1	730.1	624.6	1,148.4
Selling, general and administrative expenses	816.9	789.8	705.9	798.4	813.6
Gain on fire insurance recovery	—	(120.6)	—	—	—
Loss (income) from equity method investments	9.9	(50.1)	(38.6)	50.1	(62.0)
Operating profit (loss)	722.6	1,095.0	62.8	(223.9)	396.8
Interest expense	176.7	245.4	266.4	221.8	184.8
Other loss (income)	12.2	92.5	11.0	(63.5)	—
Income (loss) from continuing operations before income taxes	533.7	757.1	(214.6)	(382.2)	212.0
Income tax expense (benefit)	172.4	236.1	(113.2)	(131.3)	72.8
Income (loss) from continuing operations	361.3	521.0	(101.4)	(250.9)	139.2
Income (loss) from discontinued operations, net of tax	—	—	—	52.5	(10.3)
Net income (loss)	$361.3	$521.0	$(101.4)	$(198.4)	$128.9
Net Income (Loss) Per Diluted Share:					
Continuing operations	$2.21	$3.12	$(.65)	$(1.78)	$1.04
Discontinued operations	—	—	—	.37	(.08)
Net income (loss) per diluted common share	$2.21	$3.12	$(.65)	$(1.41)	$.96
Weighted average diluted shares outstanding	163.5	167.2	157.1	141.1	134.2
Balance Sheet Data:					
Working capital	$2,162.7	$2,110.0	$2,128.4	$1,497.7	$2,215.3
Total assets	7,422.2	7,611.8	7,708.9	7,200.2	8,867.9
Long-term debt and capital lease obligations	1,900.9	1,978.6	2,918.4	2,567.3	3,474.4
Shareholders' equity	3,387.3	3,545.5	2,755.6	2,612.4	3,048.2
Other Consolidated Operational Data:					
Total hogs processed [1]	30.7	30.4	32.9	35.2	33.9
Packaged meats sales (pounds) [1]	3,119.4	3,159.7	3,238.0	3,450.6	3,363.4
Fresh pork sales (pounds) [1]	4,154.6	4,035.0	4,289.9	4,702.0	4,356.7
Total hogs sold [2]	18.1	18.6	19.3	20.4	20.2

[1] Comprised of Pork segment and International segment.

[2]

Comprised of Hog Production segment and International segment and includes intercompany hog sales.

Notes to Selected Financial Data:

Fiscal 2012

Includes our share of charges related to the CFG Consolidation Plan of $38.7 million.

Includes net charges of $22.2 million related to the Missouri litigation.

Includes losses of $12.2 million on debt extinguishment.

Includes accelerated depreciation charges associated with the idling of certain Missouri hog farm assets of $8.2 million.

Includes accelerated depreciation and other charges associated with the planned closure of our Portsmouth facility of $4.7 million.

Includes $3.1 million of charges related to the Cost Savings Initiative.

Fiscal 2011

Includes an involuntary conversion gain on fire insurance recovery of $120.6 million.

Includes losses of $92.5 million on debt extinguishment.

Includes $28.0 million of charges related to the Cost Savings Initiative.

Includes a net benefit of $19.1 million related to the Missouri litigation.

Includes net gains of $18.7 million on the sale of hog farms.

Fiscal 2010

Includes $34.1 million of impairment charges related to certain hog farms.

Includes restructuring and impairment charges totaling $17.3 million related to the Restructuring Plan.

Includes $13.1 million of impairment and severance costs primarily related to the Sioux City plant closure.

Includes $11.0 million of charges for the write-off of amendment fees and costs associated with the U.S. Credit Facility and the Euro Credit Facility.

Includes $9.1 million of charges related to the Cost Savings Initiative.

Fiscal 2009

Fiscal 2009 was a 53 week year.

Includes a pre-tax write-down of assets and other restructuring charges totaling $88.2 million related to the Restructuring Plan.

Includes a $56.0 million pre-tax gain on the sale of Groupe Smithfield.

Includes a $54.3 million gain on the sale of Smithfield Beef, Inc., net of tax of $45.4 million (discontinued operations).

Includes charges related to inventory write-downs totaling $25.8 million.

Fiscal 2008

Includes a pre-tax impairment charge on our shuttered Kinston, North Carolina plant of $8.0 million.

Includes a loss on the disposal of the assets of Smithfield Bioenergy, LLC of $9.6 million, net of tax of $5.4 million (discontinued operations).

Includes pre-tax inventory write-down and disposal costs of $13.0 million associated with outbreaks of classical swine fever in Romania.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following information in conjunction with the audited consolidated financial statements and the related notes in "Item 8. Financial Statements and Supplementary Data."

Our fiscal year consists of 52 or 53 weeks and ends on the Sunday nearest April 30. All fiscal years presented in this discussion consisted of 52 weeks. 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 are also the leader in numerous packaged meats categories with popular brands including Farmland®, Smithfield®, Eckrich®, Armour® and John Morrell®. We are committed to providing good food in a responsible way and maintaining robust animal care, community involvement, employee safety, environmental, and food safety and quality programs.

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.

We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous 49% interest in Butterball, LLC (Butterball), which were sold in December 2010 (fiscal 2011), as well as our former live cattle operations, which were sold in the first quarter of fiscal 2010. The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries: The Smithfield Packing Company, Inc. (Smithfield Packing), Farmland Foods, Inc. and John Morrell Food Group. The Hog Production segment consists of our hog production operations located in the U.S. 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 Corporate segment provides management and administrative services to support our other segments.

Fiscal 2012 Summary

Net income was $361.3 million, or $2.21 per diluted share, in fiscal 2012, compared to net income of $521.0 million, or $3.12 per diluted share, in fiscal 2011. The following explains the significant changes in fiscal 2012 results compared to fiscal 2011:

- Pork segment operating profit decreased $129.7 million from last year's record $753.4 million due to significantly higher hog costs, which reduced fresh pork cutout margins.
- Hog Production segment operating profit decreased $58.3 million driven principally by litigation charges and higher feed costs.

International segment operating profit decreased $73.1 million primarily as a result of charges at CFG, of which our share was $38.7 million, higher feed costs and currency losses in our Mexican joint ventures, and higher raw material costs in our Polish meat processing operations. See "Significant Events Affecting Results of Operations" below for further discussion.

Corporate segment results decreased $113.7 million, primarily due to a $120.6 million gain in the prior year on the final settlement of our insurance claim related to the fire that occurred at our Cudahy, Wisconsin facility.

Interest expense decreased $68.7 million, or 28%, as a result of our Project 100 initiative, which is described below.

Losses on debt extinguishment were $12.2 million in the current year compared to $92.5 million in the prior year.

Project 100

In the latter half of fiscal 2010, we developed a plan to reduce the level of debt on our balance sheet by $1 billion and eliminate $100 million of annual interest and finance expense from our statement of income (Project 100). This project was intended to improve our credit metrics, extend and smooth maturities of our various debt obligations and utilize idle cash on hand, while at the same time, maintaining ample liquidity. Project 100 was completed in the first half of fiscal 2012. As a result, we have dramatically reduced our leverage and interest expense. Our net debt (long-term debt and capital lease obligations including current portion, net of cash) to total capitalization (net debt plus shareholders' equity) has decreased from 48% at the end of fiscal 2010 to 33% as of April 29, 2012. Our goal is to maintain a net debt to total capitalization ratio of approximately 40% or lower with a ceiling of 50%.

Share Repurchase Program

In June 2011 (fiscal 2012), we announced that our board of directors had approved a share repurchase program authorizing us to buy up to $150.0 million of our common stock over the subsequent 24 month period (the Share Repurchase Program). In September 2011 (fiscal 2012), our board of directors approved an increase of $100.0 million to the authorized amount of the Share Repurchase Program.

In June 2012 (fiscal 2013), our board of directors approved a new share repurchase program authorizing us to buy up to $250 million of our common stock over the subsequent 24 month period in addition to the amounts previously authorized under the Share Repurchase Program. We intend to fund share repurchases from cash on hand. Share repurchases may be made on the open market, or in privately negotiated transactions. The number of shares repurchased, and the timing of any buybacks, will depend on corporate cash balances, business and economic conditions, and other factors, including investment opportunities. The program may be discontinued at any time. Since the Share Repurchase Program was authorized, we have repurchased a total of 11,795,489 shares of our common stock for $241.7 million through June 13, 2012.

Strategies for Growth

With the completion of the Restructuring Plan in fiscal 2011, which is further described under "Significant Events Affecting Results of Operations" below, we are focused on top and bottom line growth in our base business. Our strategies for growth include:

Focus On Twelve Core Brands—In connection with our Pork segment restructuring plan, we rationalized our large brand portfolio and began to focus our marketing support on twelve major brand names: Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook’s, Curly's and Healthy Ones. Approximately three-quarters of our domestic retail packaged meats sales are branded products, with nearly 90% of those branded sales being core brands.

Invest in Advertising to Activate Brands—We have begun to invest more heavily in marketing talent and consumer advertising campaigns to drive consumer awareness. In December 2011 (fiscal 2012), we entered into a multi-year sponsorship agreement with the Richard Petty Motorsports NASCAR team to help activate our brands with consumer-focused marketing.

Build a Strong Innovation Pipeline—We are driving consumer relevant product innovation by focusing on delivering convenience oriented products such as our Smithfield marinated pork products, convenient packaging such as our Smithfield bacon pouch pack and healthier, reduced sodium products. In fiscal 2012, we opened a 37,000 square foot research and development center with three state of the art kitchens, a dedicated cutting room, multimedia technology, and a pilot plant that simulates full scale manufacturing processes. This facility allows us to co-develop prototypes with customers and make quick product modifications for speed to the market.

Coordinated Sales and Marketing Team—In connection with the Pork segment restructuring plan, we merged two independent fresh pork sales forces and consolidated our international sales organizations for our U.S. pork companies into one group responsible for exports. The restructured sales groups provide for a more coordinated and focused strategy to access markets and service customers.

Outlook

The commodity markets affecting our business are often volatile and fluctuate on a daily basis. In this 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-Fresh pork margins have been strong over the last two fiscal years. Margins for fiscal 2012 averaged above the normalized range of $3-$7 per head for much of the year before coming under pressure late in the year. Favorable weather and ideal growing conditions contributed to higher pork supplies this spring. At the same time, relatively high retail prices and the specter of $4/gallon gas prices dampened consumer demand. The confluence of these factors weakened margins in the fresh pork complex in Q4 2012 and early into Q1 2013. Notwithstanding the current weakness, we believe the fundamentals support solid profitability in fresh pork for the full fiscal year. Margins should get a lift as the oversupply situation resulting from accelerated slaughter levels in the spring corrects itself and the spread between wholesale and retail prices normalizes. Moreover, lower supplies of competing proteins, continued strength in export demand and relatively high pork prices around the world should support healthy fresh pork profitability within the normalized range of $3-$7 per head for fiscal 2013.

Operating margins in our packaged meats business improved in fiscal 2012, despite higher raw material costs. The business benefited from an improved product mix, a more coordinated and focused sales strategy, and increased investment in marketing talent and consumer advertising. Although packaged meats volumes were unchanged from last year, we improved our sales mix by successfully growing our retail packaged meats volume in our core brands, despite competing in product categories that are down industry-wide. We are executing our strategy to grow our packaged meats business by continuing to coordinate our sales and marketing team approach, focus on our twelve core brands, invest in consumer-focused advertising, and build a strong product innovation pipeline to grow share and distribution.

In summary, we are optimistic about our packaged meats business for fiscal 2013. Based on the focus and momentum we have generated in this part of the business, we are increasing our view of the normalized operating profit range in packaged meats by $.02 per pound to $.12 to $.17 per pound from $.10 to $.15 per pound. We expect packaged meats operating margins to be in the top half of the new normalized range in fiscal 2013.

Hog Production-Balanced U.S. pork fundamentals and tighter global protein supplies supported live hog market prices in fiscal 2012. Domestic live hog prices were up 15% year over year, but were pressured in the fourth quarter of fiscal 2012 as favorable weather and growing conditions accelerated growth rates and, ultimately, hog supplies. However, with no significant herd expansion expected and the forecasted contraction of other protein supplies, segment fundamentals should be supportive of healthy hog prices going forward.

In fiscal 2013, we expect raising costs to average in the mid $60s per hundredweight in the first quarter before moving lower in the fall as cheaper corn moves through our feeding complex. Lower corn prices should continue to reduce raising costs to the high $50s per hundredweight by the fourth quarter of fiscal 2013.

In summary, we believe a balance domestically, between restrained supply of pork and other proteins, coupled with healthy exports, is supportive of hog production profitability going forward. We expect operating margins will be at the low end of our normalized range of $10-$15 per head in the first quarter of fiscal 2013 and for the full fiscal year. While the current futures strip does not yet support these profitability levels, the relative health of US pork fundamentals, existing risk management positions, lower expected raising costs, and recent momentum in live hog prices provide the basis for our outlook for the full fiscal year.

• International-Our European live swine operations should benefit from tightening hog supplies on the continent. Industry forecasters predict heightened environmental and welfare regulations in Europe will cause producers to contract, improving an already favorable production environment for our Polish and Romanian hog farms. Our Mexican live swine joint ventures are currently operating in a challenging production environment. We expect modest improvements in fiscal 2013. However, before meaningful contributions to segment profitability can be expected, improvements in live hog prices and/or feed grain cost will be needed.

On the meat processing side of our international business, we expect improved results from our Polish meat operations in fiscal 2013 after a disappointing fiscal 2012. Recent approval to export pork products out of Romania to European Union member countries should also improve results from our Romanian meat operations in fiscal 2013. We also expect modest contributions from our Mexican meat operations.

Finally, in the third quarter of fiscal 2012, CFG announced a multi-year comprehensive plan to consolidate and streamline its manufacturing operations, which should improve operating results over the long-term. In the near-term, we expect only modest positive contributions from CFG.

In total, we anticipate operating profits from this segment will move to the upper end of the normalized range of $50 million to $125 million in fiscal 2013.

RESULTS OF OPERATIONS

Significant Events Affecting Results of Operations

CFG Consolidation Plan

In December 2011 (fiscal 2012), the board of CFG approved a multi-year plan to consolidate and streamline its manufacturing operations to improve operating efficiencies and increase utilization (the CFG Consolidation Plan). The CFG Consolidation Plan includes the disposal of certain assets, employee redundancy costs and the contribution of CFG's French cooked ham business into a newly formed joint venture. As a result, we recorded our share of CFG's charges totaling $38.7 million in equity in loss (income) of affiliates within the International segment in the third quarter of fiscal 2012.

Missouri Litigation

PSF, the Company and certain of our other subsidiaries and affiliates are parties to litigation in Missouri involving a number of claims alleging that hog farms owned or under contract with the defendants interfered with the plaintiffs' use and enjoyment of their properties. These claims are more fully described in “Item 3. Legal Proceedings—Missouri Litigation.”

During fiscal 2012 and continuing in the first quarter of fiscal 2013, we engaged in global settlement negotiations with counsel representing nearly all of the plaintiffs in the nuisance litigation and numerous carriers of commercial general liability and pollution liability policies. The parties to the litigation have made substantial progress toward consummation of a global settlement that would resolve the vast majority of the nuisance litigation, including all pending cases with the exception of one case. However, there are significant contingencies that must be fulfilled before the settlement is consummated, and we cannot make any assurance that those contingencies will be satisfied. In addition, we have agreements with the insurance carriers under which we receive payments that we contribute to pay a portion of the settlement, most of which are contingent on the consummation of the global settlement.

Due to the recent developments discussed above including the substantial progress toward the consummation of a global settlement and the settlements with certain insurance carriers, we recognized $22.2 million in net charges to selling, general and administrative expenses in the Hog Production segment associated with the Missouri litigation in fiscal 2012.

In November 2010 (fiscal 2011), we reached a settlement with one of our insurance carriers regarding the reimbursement of certain past and future defense costs associated with our Missouri litigation. Related to this matter, we recognized a net benefit of $19.1 million in selling, general and administrative expenses in the Hog Production segment in fiscal 2011.

Fire Insurance Settlement

In July 2009 (fiscal 2010), a fire occurred at the primary manufacturing facility of our subsidiary, Patrick Cudahy, Inc. (Patrick Cudahy), in Cudahy, Wisconsin. 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. In December 2010 (fiscal 2011), we reached an agreement with our insurance carriers to settle the claim for a total of $208.0 million, of which $70.0 million had been advanced to us in fiscal 2010. We allocated these proceeds to first recover the book value of the property lost, out-of-pocket expenses incurred and business interruption losses that resulted from the fire. The remaining proceeds were recognized as an involuntary conversion gain of $120.6 million in the Corporate segment in the third quarter of fiscal 2011. The involuntary conversion gain was classified in a separate line item on the consolidated statement of income.

Based on an evaluation of business interruption losses incurred, we recognized $15.8 million and $31.8 million in fiscal 2011 and fiscal 2010, respectively, of the insurance proceeds in cost of sales in our Pork segment to offset business interruption losses incurred.

Debt Extinguishment

During fiscal 2012, we repurchased $59.7 million of our 2014 Notes for $68.3 million and recognized losses on debt extinguishment of $11.0 million in fiscal 2012, including the write-off of related unamortized discounts and debt costs.

During fiscal 2011, we repurchased $522.2 million of our 7% senior unsecured notes due August 2011 (2011 Notes) for $543.1 million and recognized losses on debt extinguishment of $21.4 million in fiscal 2011, including the write-off of related unamortized premiums and debt costs.

In January 2011 (fiscal 2011), we commenced a Dutch auction cash tender offer to purchase for $450.0 million in cash (the January Tender Offer) the maximum aggregate principal amount of our outstanding 7.75% senior unsecured notes due May 2013 (2013 Notes) and our outstanding 10% senior secured notes due July 2014 (2014 Notes). As a result of the January Tender Offer, we paid $450.0 million to repurchase 2013 Notes and 2014 Notes with face values of $190.0 million and $200.9 million, respectively, and recognized a losses on debt extinguishment of $71.1 million in the fourth quarter of fiscal 2011, including the write-off of related unamortized discounts and debt costs.

Hog Production Cost Savings Initiative

In 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. We incurred charges related to these activities totaling $3.1 million, $28.0 million and $9.1 million in fiscal 2012, 2011 and 2010, respectively. All charges have been recorded in cost of sales in the Hog Production segment. We expect the Cost Savings Initiative to be substantially complete by the end of fiscal 2013.

Pork Segment 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. This restructuring has made us more competitive by improving operating efficiencies and increasing plant utilization. We completed the Restructuring Plan in the first half of fiscal 2011 with cumulative pre-tax restructuring and impairment charges of approximately $105.5 million, of which $17.3 million was recognized in fiscal 2010. No material charges were incurred in fiscal 2011. All charges were recorded in the Pork segment.

Impairment and Disposal of Long-lived Assets

Portsmouth, Virginia Plant

In November 2011 (fiscal 2012), we announced that we would shift the production of hot dogs and lunchmeat from Smithfield Packing's Portsmouth, Virginia plant to our Kinston, North Carolina plant and permanently close the Portsmouth facility. The Kinston facility will be expanded to handle the additional production and will incorporate state of the art technology and equipment, which is expected to produce significant production efficiencies and cost reductions. The Kinston expansion will require an estimated $85 million in capital expenditures. The expansion of the Kinston facility and the closure of the Portsmouth facility are expected to be completed by the end of fiscal 2013.

As a result of this decision, we performed an impairment analysis of the related assets at the Portsmouth facility in the second quarter of fiscal 2012 and determined that the net cash flows expected to be generated over the anticipated remaining useful life of the plant are sufficient to recover its book value. As such, no impairment exists. However, we have revised depreciation estimates to reflect the use of the related assets at the Portsmouth facility over their shortened useful lives. As a result, we recognized accelerated depreciation charges of $3.3 million in cost of sales during fiscal 2012. We expect to recognize accelerated depreciation charges totaling $4.7 million during fiscal 2013. Also, in connection with this decision, we wrote-down inventory by $0.8 million in cost of sales and accrued $0.6 million for employee severance in selling, general and administrative expenses in the second quarter of fiscal 2012. All of these charges are reflected in the Pork segment.

Hog Farms

Texas

In the first quarter of fiscal 2010, we ceased hog production operations and closed the farms related to our Dalhart, Texas operation. In connection with this event, we recorded an impairment charge of $23.6 million to write-down the assets to their estimated fair value of $20.9 million. The estimate of fair value was based on our assessment of the facts and circumstances at the time of the write-down, which indicated that the highest and best use of the assets by a market participant was for crop farming.

In January 2011 (fiscal 2011), we sold a portion of the Dalhart, Texas operation to a crop farmer for net proceeds of $9.1 million and recognized a loss on the sale of $1.8 million in selling, general and administrative expenses in our Hog Production segment in the third quarter of fiscal 2011. Also, in January 2011 (fiscal 2011), we received a non-binding letter of intent from a prospective buyer for the purchase of our remaining Dalhart, Texas assets. The prospective buyer had indicated that it intended to utilize the farms for hog production after reconfiguring the assets to meet their specific business purposes. In April 2011 (fiscal 2011), we completed the sale of the remaining Dalhart, Texas assets and received net proceeds of $32.5 million. As a result of the sale, we recognized a gain of $13.6 million, after allocating $8.5 million in goodwill to the asset group, in selling, general and administrative expenses in our Hog Production segment in the fourth quarter of fiscal 2011.

Oklahoma and Iowa

In January 2011 (fiscal 2011), we completed the sale of certain hog production assets located in Oklahoma and Iowa. As a result of these sales, we received total net proceeds of $70.4 million and recognized gains totaling $6.9 million, after allocating $17.0 million of goodwill to these asset groups. The gains were recorded in selling, general and administrative expenses in our Hog Production segment in the third quarter of fiscal 2011.

Missouri

In the first quarter of fiscal 2010, we entered into negotiations to sell certain hog farms in Missouri, which we believed would result in a completed sale within the subsequent twelve month period. We recorded total impairment charges of $10.5 million, including a $6.0 million allocation of goodwill, in the first quarter of fiscal 2010 to write-down the hog farm assets to their estimated fair value. The impairment charges were recorded in cost of sales in the Hog Production segment.

In the first half of fiscal 2011, we began reducing the hog population on certain other hog farms in Missouri in order to comply with an amended consent decree. The amended consent decree allows us to return the farms to full capacity upon the installation of an approved "next generation" technology that would reduce the level of odor produced by the farms. The reduced hog raising capacity at these farms was replaced with third party contract farmers in Iowa. In the first quarter of fiscal 2011, in connection with the anticipated reduction in finishing capacity, we performed an impairment analysis of these hog farms and determined that the book value of the assets was recoverable and thus, no impairment existed.

Based on the favorable hog raising performance experienced with these third party contract farmers and the amount of capital required to install "next generation" technology at our Missouri farms, we made the decision in the first quarter of fiscal 2012 to permanently idle certain of the assets on these farms. Depreciation estimates have been revised to reflect the shortened useful lives of the assets. As a result, we recognized accelerated depreciation charges of $8.2 million in fiscal 2012. These charges are reflected in the Hog Production segment.

Butterball, LLC (Butterball)

In June 2010 (fiscal 2011), we announced that we had made an offer to purchase our joint venture partner's 51% ownership interest in Butterball and our partner's related turkey production assets. In accordance with Butterball's operating agreement, our partner had to either accept the offer to sell or be required to purchase our 49% interest and our related turkey production assets.

In September 2010 (fiscal 2011), we were notified of our joint venture partner's decision to purchase our 49% interest in Butterball and our related turkey production assets. In December 2010 (fiscal 2011), we completed the sale of these assets for $167.0 million and recognized a gain of $0.2 million.

RMH Foods, LLC (RMH)

In October 2009 (fiscal 2010), we entered into an agreement to sell substantially all of the assets of RMH, a subsidiary within the Pork segment. As a result of this sale, we recorded pre-tax charges totaling $3.5 million, including $0.5 million of goodwill impairment, in cost of sales in the Pork segment in the second quarter of fiscal 2010 to write-down the assets of RMH to their fair values. In December 2009 (fiscal 2010), we completed the sale of RMH for $9.1 million, plus $1.4 million of liabilities assumed by the buyer.

Sioux City, Iowa Plant Closure

In January 2010 (fiscal 2010), we announced that we would close our fresh pork processing plant located in Sioux City, Iowa. The Sioux City plant was one of our oldest and least efficient plants. The plant design severely limited our ability to produce value-added packaged meats products and maximize production throughput. A portion of the plant's production was transferred to other nearby Smithfield plants. We closed the Sioux City plant in April 2010 (fiscal 2010).

As a result of the planned closure, we recorded charges of $13.1 million in the third quarter of fiscal 2010. These charges consisted of $3.6 million for the write-down of long-lived assets, $2.5 million of unusable inventories and $7.0 million for estimated severance benefits pursuant to contractual and ongoing benefit arrangements. Substantially all of these charges were recorded in cost of sales in the Pork segment.

Consolidated Results of Operations

The tables presented below compare our results of operations for fiscal years 2012, 2011 and 2010. As used in the tables, "NM" means "not meaningful."

Sales and Cost of Sales

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Sales	$13,094.3	$12,202.7	7 %	$12,202.7	$11,202.6	9 %
Cost of sales	11,544.9	10,488.6	10	10,488.6	10,472.5	—
Gross profit	$1,549.4	$1,714.1	(10)	$1,714.1	$730.1	135
Gross profit margin	12 %	14 %		14 %	7 %	

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

2012 vs. 2011

The increase in consolidated sales was primarily driven by a 6% increase in average unit selling prices coupled with a 2% increase in volume in the Pork segment. The improvements were attributable to higher market prices for fresh pork, supported by export demand, and an improved sales mix in packaged meats to higher margin core brands.

Gross margin declined from prior year levels as a result of significantly higher raw material costs in all segments. Domestic live hog market prices increased approximately 15% to $65 per hundredweight from $57 per hundredweight, and domestic raising costs increased 18% to $64 per hundredweight from $54 per hundredweight as a result of higher feed prices.

Cost of sales in the prior year included $28.0 million of charges associated with the Cost Savings Initiative compared to $3.1 million in the current year. Also, cost of sales in the current year includes $8.2 million and $4.7 million of accelerated depreciation and other charges related to the idling of certain of our Missouri hog farm assets and the planned closure of our Portsmouth, Virginia meat processing plant, respectively.

2011 vs. 2010

The increase in consolidated sales was driven primarily by an 18% increase in average unit selling prices in the Pork segment, which was partially offset by a 7% decline in volume, as a result of lower supplies of pork products and stable demand.

The improvement in gross profit margin was led by a substantial turnaround in hog production profitability resulting from tightened industry supplies, which led to substantially higher live hog market prices, and slightly lower raising costs on a per pig basis. In addition, higher fresh pork market values relative to live hog prices, and higher average unit selling prices in the Pork segment contributed to the improvement.

Cost of sales in fiscal 2011 included $28.0 million of charges associated with the Cost Savings Initiative. Cost of sales in fiscal 2010 included $72.4 million of charges related to hog farm and plant write-downs, the Cost Savings Initiative and the Restructuring Plan.

Selling, General and Administrative Expenses (SG&A)

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Selling, general and administrative expenses	$816.9	$789.8	3 %	$789.8	$705.9	12 %

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

2012 vs. 2011

Fiscal 2012 includes $22.2 million in net charges associated with the Missouri litigation compared to a $19.1 million net benefit in fiscal 2011. The Missouri litigation is more fully described under "Significant Items Affecting Results of Operations" above.

Fiscal 2011 included a net gain of $18.7 million on the sale of hog farms, which is more fully explained under "Significant Events Affecting Results of Operations" above.

Losses on foreign currency denominated transactions increased $7.0 million.

Fiscal 2012 includes $6.4 million in professional fees related to the potential acquisition of a controlling interest in CFG. In June 2011 (fiscal 2012), we terminated negotiations to purchase the additional interest.

Variable compensation expense was $29.9 million lower due primarily to lower profitability levels in fiscal 2012.

Expense for pension and other postretirement benefits decreased $19.6 million.

2011 vs. 2010

Variable compensation expense increased by $65.6 million due to higher overall profitability; variable compensation programs were severely curtailed in fiscal 2010.

A reduction in the amount of government subsidies recognized for our Romanian hog production operations increased SG&A by $32.2 million.

Contract services and professional fees increased $13.8 million, primarily due to outsourced information technology support costs.

Fiscal 2010 included a gain of $4.5 million on the sale of our investment in Farasia Corporation, a 50/50 Chinese joint venture, (Farasia).

Losses on foreign currency denominated transactions increased by $4.1 million.

Fiscal 2011 included a $19.1 million benefit related primarily to an insurance settlement associated with the Missouri litigation.
Fiscal 2011 included a net gain of $18.7 million on the sale of hog farms, which is more fully explained under "Significant Events Affecting Results of Operations" above.

Loss (Income) from Equity Method Investments

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
CFG [1]	$25.0	$(17.0)	(247)%	$(17.0)	$(4.5)	278%
Mexican joint ventures	(13.4)	(29.6)	(55)	(29.6)	(13.2)	124
Butterball	—	(1.3)	NM	(1.3)	(18.8)	(93)
All other equity method investments	(1.7)	(2.2)	(23)	(2.2)	(2.1)	5
Loss (income) from equity method investments	$9.9	$(50.1)	(120)	$(50.1)	$(38.6)	30

(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.

The following items explain the significant changes in loss (income) from equity method investments:

2012 vs. 2011

CFG's results for fiscal 2012 include $38.7 million of charges related to the CFG Consolidation Plan, which is more fully described under "Significant Events Affecting Results of Operations" above.
Results from our Mexican joint ventures were negatively impacted by higher feed costs and unfavorable changes in foreign exchange rates.

2011 vs. 2010

Fiscal 2010 results for CFG included a $10.4 million debt restructuring charge and a $1.3 million charge related to its discontinued Russian operation.
Equity income from our Mexican joint ventures increased significantly as a result of higher hog prices.
The decrease in equity income from Butterball reflects our sale of the investment in the third quarter of fiscal 2011, which is more fully explained under "Significant Events Affecting Results of Operations" above.

Interest Expense

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Interest expense	$176.7	$245.4	(28)%	$245.4	$266.4	(8)%

Interest expense decreased as a result of our Project 100 initiative, under which we redeemed more than $1 billion of debt since the first quarter of fiscal 2011, including $600 million of our 7% senior unsecured notes due August 2011, $260.6 million of our 10% senior secured notes due July 2014 and $190 million of our 7.75% senior unsecured notes due May 2013.

Loss on Debt Extinguishment

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Loss on debt extinguishment	$12.2	$92.5	(87)%	$92.5	$11.0	NM

The following items explain the significant changes in loss on debt extinguishment:

2012 vs. 2011

In fiscal 2012, we recognized losses of $11.0 million on the repurchase of $59.7 million of our 10% senior secured notes due July 2014.

We recognized a loss on debt extinguishment of $1.2 million in the first quarter of fiscal 2012 associated with the refinancing of our working capital facilities in June 2011 (fiscal 2012), which is more fully described in "Liquidity and Capital Resources" below.

2011 vs. 2010

As described more fully under “Liquidity and Capital Resources” below, we repurchased $913.1 million of our senior unsecured and senior secured notes in fiscal 2011 and recognized losses on debt extinguishment of $92.5 million.

In fiscal 2010, we recognized losses of $11.0 million related to the write-off of amendment fees and costs associated with the extinguishment of our then existing secured revolving credit facility (the U.S. Credit Facility) and our then existing European secured revolving credit facility (the Euro Credit Facility).

Income Tax (Benefit) Expense

	Fiscal Years		
	2012	2011	2010
Income tax (benefit) expense (in millions)	$172.4	$236.1	$(113.2)
Effective tax rate	32%	31%	53%

The decrease in the effective tax rate from 2010 to 2011 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, the utilization of foreign tax credits in the fiscal 2011, and the legislative retroactive reinstatement of the Credit for Increasing Research Activities.

Segment Results

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

Pork Segment

	Fiscal Years 2012 (in millions)	2011	% Change	Fiscal Years 2011 (in millions)	2010	% Change
Sales:						
Fresh pork [1]	$5,089.4	$4,542.7	12 %	$4,542.7	$4,199.7	8 %
Packaged meats	6,003.6	5,721.2	5	5,721.2	5,126.6	12
Total	$11,093.0	$10,263.9	8	$10,263.9	$9,326.3	10
Operating profit: [2]						
Fresh pork [1]	$222.0	$406.5	(45)%	$406.5	$61.1	565 %
Packaged meats	401.7	346.9	16	346.9	477.6	(27)
Total	$623.7	$753.4	(17)	$753.4	$538.7	40
Sales volume:						
Fresh pork			4 %			(8)%
Packaged meats			—			(4)
Total			2			(7)
Average unit selling price:						
Fresh pork			8 %			18 %
Packaged meats			5			16
Total			6			18
Hogs processed			1 %			(10)%
Average domestic live hog prices (per hundred weight) [3]	$65.05	$56.57	15 %	$56.57	$43.81	29 %

(1) Includes by-products and rendering.

(2) Fresh pork and packaged meats operating profits represent management's estimated allocation of total Pork segment operating profit.

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

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

2012 vs. 2011

Sales and operating profit were positively impacted by higher average unit selling prices for both fresh pork and packaged meats driven supported by strong export demand, an improved mix in packaged meats to more core brand product sales, and strong pricing discipline.

Fresh pork volumes increased primarily as a result of stronger export demand.

Fresh pork operating profit decreased to $8 per head from a record $15 per head as live hog prices increased significantly more than fresh meat prices.

Packaged meats operating profit increased to $.15 per pound from $.13 per pound as a result of strong pricing discipline, an improved product mix to more high margin core brands and lower variable compensation and pension related expenses, which more than offset the impact of higher raw material costs.

Operating profit for packaged meats in fiscal 2012 includes $4.7 million in charges associated with the anticipated closure of our Portsmouth plant.

2011 vs. 2010

Sales and operating profit were positively impacted by substantially higher average unit selling prices for both fresh pork and packaged meats driven by a reduction in the supply of pork products and stable demand.

Fresh pork sales volume declined due to the closure of our Sioux City, Iowa plant in April 2010 (fiscal 2010).

Fresh pork operating profit increased to $15 per head from $2 per head as a result of substantially higher fresh pork market prices relative to live hog prices.

Packaged meats operating profit declined to $.13 per pound from $.17 per pound, reflecting substantially higher raw material costs, which we were unable to pass on fully to consumers.

Operating profit in fiscal 2010 included $30.4 million in charges associated with the Restructuring Plan and the Sioux City plant closure.

Hog Production Segment

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Sales	$3,052.6	$2,705.1	13 %	$2,705.1	$2,207.8	23 %
Operating profit (loss)	166.1	224.4	26	224.4	(539.2)	142
Head sold	15.77	16.43	(4)%	16.43	17.43	(6)%
Average domestic live hog prices (per hundred weight) (1)	$65.05	$56.57	15 %	$56.57	$43.81	29 %
Raising costs (per hundred weight) (2)	$63.93	$54.14	18 %	$54.14	$54.88	(1)%

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

(2) Includes the effects of grain derivative contracts designated in hedging relationships.

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

2012 vs. 2011

Sales and operating profit were positively impacted by significantly higher live hog market prices.

Volume declined due to temporary disruptions from the Cost Savings Initiative and the sale of our Oklahoma hog farms at the end of the third quarter of fiscal 2011.

Raising costs increased primarily as a result of higher feed costs.

Fiscal 2012 operating profit includes $22.2 million in net charges associated with the Missouri litigation compared to a $19.1 million net benefit in fiscal 2011. The Missouri litigation is more fully described under "Significant Items Affecting Results of Operations" above.

Operating profit in fiscal 2011 included a net gain of $18.7 million on the sale of hog farms in Oklahoma, Iowa and Texas.

Fiscal 2012 operating profit includes accelerated depreciation charges of $8.2 million due to our decision in the first quarter of fiscal 2012 to permanently idle certain Missouri farm assets.

Fiscal 2012 operating profit includes $3.1 million in charges associated with the Cost Savings Initiative compared to $28.0 million in fiscal 2011.

Certain derivative contracts are not reflected in the average live hog prices and raising costs presented in the table above; primarily commodity derivative contracts that are not designated in hedging relationships for accounting purposes as well as lean hog derivative contracts that are designated in hedging relationships for accounting purposes. Gains on these contracts increased by $36.4 million.

2011 vs. 2010

Sales and operating profit were positively impacted by substantially higher live hog prices due to a reduction in the supply of market hogs.

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

Operating profit in fiscal 2011 included a benefit of $19.1 million related primarily to an insurance settlement associated with the Missouri litigation, which is more fully described under "Significant Items Affecting Results of Operations" above.

Operating profit in fiscal 2011 includes a net gain of $18.7 million on the sales of hog farms in Oklahoma, Iowa and Texas.

Operating profit in fiscal 2011 included charges associated with the Cost Savings Initiative of $28.0 million compared to $9.1 million in fiscal 2010.

International Segment

	Fiscal Years 2012 (in millions)	2011	% Change	Fiscal Years 2011 (in millions)	2010	% Change
Sales:						
Poland	$1,128.3	$1,040.0	8 %	$1,040.0	$992.6	5 %
Romania	245.8	199.1	23	199.1	182.4	9
Other	92.6	101.6	(9)	101.6	102.2	(1)
Total	$1,466.7	$1,340.7	9	$1,340.7	$1,277.2	5
Operating profit (loss):						
Poland	$49.7	$64.0	(22)%	$64.0	$75.7	(15)%
Romania	7.9	9.2	(14)	9.2	35.1	(74)
Other [(1)]	(14.8)	42.7	(135)	42.7	17.1	150
Total	$42.8	$115.9	(63)	$115.9	$127.9	(9)
Poland:						
Sales volume (pounds) [(2)]			(4)%			12 %
Average unit selling price [(2)]			13			(7)
Hogs processed			(6)			24
Raising costs (per hundred weight)			17			3
Romania:						
Sales volume (pounds) [(2)]			10 %			22 %
Average unit selling price [(2)]			9			(10)
Hogs processed			8			17
Raising costs (per hundred weight)			13			(12)

(1) Includes the results from our equity method investments in Mexico and our investment in CFG.
(2) Excludes the sale of live hogs and includes the impact of foreign currency translation.

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

2012 vs. 2011

Sales and operating profit in Poland were positively impacted by higher average unit selling prices primarily due to a shift in product mix to more packaged meats and our ability to pass along higher raw material costs, particularly in the second half of fiscal 2012.

Operating profit in Poland declined primarily as a result of higher raw material costs in our meat processing operations. Improvements in Polish hog production fundamentals partially offset the decline in profit.

Sales and operating profit in our Romania fresh pork operation was positively impacted by our recently received approval to export pork products out of Romania to European Union member countries. As a result, we saw average unit selling prices, excluding the impact of foreign currency translation, increase 7%.

Our Romanian fresh pork and hog production operations both saw improvements in operating results. However, these improvements were more than offset by increased losses in our distribution operations and an unfavorable $8.4 million impact from foreign currency exposure.

Fiscal 2012 operating profit includes $38.7 million of charges related to the CFG Consolidation Plan, which is more fully described above in “Significant Events Affecting Results of Operations”.

Equity income from our Mexican joint ventures decreased $16.2 million, primarily due to higher feed costs and unfavorable changes in foreign exchange rates.

2011 vs. 2010

The increases in sales volumes were primarily due to capacity expansion in semi-processed and sausage products in Poland and the expansion of hog production operations in Romania.

The decline in average unit selling prices reflects adverse economic conditions in Europe.

In Romania, we recognized $32.2 million less in government subsidies for hog production than the prior year due to the expiration of the subsidy program in the second half of fiscal 2010.

Equity income from our equity method investments increased $29.3 million primarily driven by higher hog prices in Mexico. Also, equity income from CFG in fiscal 2010 was negatively impacted by $10.4 million of debt restructuring charges and $1.3 million of charges related to its discontinued Russian operation.

Other Segment

	Fiscal Years			Fiscal Years		
	2012	2011	% Change	2011	2010	% Change
	(in millions)			(in millions)		
Sales	$—	$74.7	NM	$74.7	$153.3	(51)%
Operating (loss) profit	—					