

SMITHFIELD FOODS INC
Form 10-Q
March 08, 2006
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended January 29, 2006

COMMISSION FILE NUMBER

1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street

Smithfield, Virginia 23430

(757) 365-3000

Virginia
(State of Incorporation)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

At February 28, 2006, 111,156,293 shares of the Registrant's Common Stock (\$.50 per value per share) were outstanding.

Table of Contents

SMITHFIELD FOODS, INC.

CONTENTS

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Condensed Statements of Income 13 and 39 Weeks Ended January 29, 2006 and January 30, 2005</u>	3
<u>Consolidated Condensed Balance Sheets January 29, 2006 and May 1, 2005</u>	4
<u>Consolidated Condensed Statements of Cash Flows 39 Weeks Ended January 29, 2006 and January 30, 2005</u>	5
<u>Notes to Consolidated Condensed Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4. <u>Controls and Procedures</u>	20
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3. <u>Defaults Upon Senior Securities</u>	21
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	21
Item 5. <u>Other Information</u>	21
Item 6. <u>Exhibits</u>	22
<u>SIGNATURES</u>	23

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SMITHFIELD FOODS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(in millions, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	January 29, 2006	January 30, 2005	January 29, 2006 (Unaudited)	January 30, 2005
Sales	\$ 2,947.9	\$ 3,060.1	\$ 8,803.6	\$ 8,430.9
Cost of sales	2,622.4	2,710.2	7,914.2	7,551.7
Gross profit	325.5	349.9	889.4	879.2
Selling, general and administrative expenses	183.5	170.0	532.7	476.2
Interest expense	37.5	36.1	113.8	96.2
Equity in income of affiliates	(3.1)	(3.9)	(15.3)	(11.3)
Income before income taxes	107.6	147.7	258.2	318.1
Income taxes	36.6	50.2	86.6	107.3
Net income	\$ 71.0	\$ 97.5	\$ 171.6	\$ 210.8
Income per share:				
Basic	\$.64	\$.88	\$ 1.54	\$ 1.90
Diluted	\$.63	\$.87	\$ 1.53	\$ 1.88
Weighted average shares outstanding:				
Basic	111.1	111.2	111.1	111.2
Effect of dilutive stock options	1.0	1.1	1.0	1.0
Diluted	112.1	112.3	112.1	112.2

See Notes to Consolidated Condensed Financial Statements

Table of Contents**SMITHFIELD FOODS, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in millions, except share data)

	January 29, 2006 (Unaudited)	May 1, 2005
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 83.4	\$ 86.8
Accounts receivable, net	677.9	656.5
Inventories	1,603.5	1,717.9
Prepaid expenses and other current assets	100.9	66.3
Total current assets	2,465.7	2,527.5
Property, plant and equipment	3,235.7	3,060.5
Accumulated depreciation	(1,238.4)	(1,117.8)
Property, plant and equipment, net	1,997.3	1,942.7
Goodwill	588.8	604.3
Investments	489.1	317.1
Other	310.1	313.2
Total assets	\$ 5,851.0	\$ 5,704.8
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Current liabilities:</i>		
Notes payable	\$ 39.0	\$ 43.7
Current portion of long-term debt and capital lease obligations	193.7	93.7
Accounts payable	527.0	502.6
Accrued expenses and other current liabilities	423.5	441.9
Total current liabilities	1,183.2	1,081.9
Long-term debt and capital lease obligations	2,060.9	2,151.7
Other	563.8	546.9
Total liabilities	3,807.9	3,780.5
Minority interests	18.0	22.9
<i>Shareholders equity:</i>		
Preferred stock, \$1.00 par value, 1,000,000 authorized shares		
Common stock, \$.50 par value, 200,000,000 authorized shares; 111,105,293 and 111,249,597 issued and outstanding	55.6	55.6
Additional paid-in capital	493.0	496.1
Stock held in trust	(51.8)	(8.9)
Retained earnings	1,556.9	1,385.3
Accumulated other comprehensive loss	(28.6)	(26.7)

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Total shareholders' equity		2,025.1	1,901.4
Total liabilities and shareholders' equity	\$	5,851.0	\$ 5,704.8

See Notes to Consolidated Condensed Financial Statements

Table of Contents**SMITHFIELD FOODS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in millions)

	January 29, 2006	39 Weeks Ended January 30, 2005 (Unaudited)
<i>Cash flows from operating activities:</i>		
Net income	\$ 171.6	\$ 210.8
Adjustments to reconcile net cash flows from operating activities:		
Depreciation and amortization	158.8	148.3
Impairment of fixed assets	8.4	
Changes in operating assets and liabilities and other, net of effect of acquisitions	21.7	(329.7)
Net cash flows from operating activities	360.5	29.4
<i>Cash flows from investing activities:</i>		
Capital expenditures, net of proceeds from sale of breeding stock	(268.6)	(125.2)
Investments	(109.7)	(71.8)
Business acquisitions, net of cash acquired	(20.4)	(210.5)
Other	19.0	
Net cash flows from investing activities	(379.7)	(407.5)
<i>Cash flows from financing activities:</i>		
Proceeds from the issuance of long-term debt and notes payable	236.5	685.6
Net repayments on revolving credit facility	(68.1)	(251.0)
Principal payments on long-term debt and capital lease obligations	(143.7)	(53.0)
Other	(8.1)	5.8
Net cash flows from financing activities	16.6	387.4
Effect of foreign exchange rate changes on cash	(0.8)	10.9
Net change in cash and cash equivalents	(3.4)	20.2
Cash and cash equivalents at beginning of period	86.8	74.3
Cash and cash equivalents at end of period	\$ 83.4	\$ 94.5

See Notes to Consolidated Condensed Financial Statements

Table of Contents

SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1: General

Smithfield Foods, Inc., together with its subsidiaries (the Company), is the largest hog producer and pork processor in the world and the fifth largest beef processor in the United States (U.S.). The Company conducts its business through six reporting segments, Pork, Beef, International, Hog Production (HP), Other and Corporate, each of which is comprised of a number of subsidiaries. Prior to the fourth quarter of fiscal 2005, the Company conducted its business through five reporting segments, Pork, Beef, HP, Other and Corporate.

These statements should be read in conjunction with the Consolidated Financial Statements and related notes, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended May 1, 2005. The interim consolidated condensed financial information furnished herein is unaudited. The information reflects all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods included in the report.

Certain prior year amounts have been reclassified to conform to current year presentations.

Note 2: Acquisitions

The following acquisitions were accounted for using the purchase method of accounting and, accordingly, the accompanying financial statements include the financial position and the results of operations from the dates of acquisition.

In November 2004 (fiscal 2005), the Company acquired Morliny S.A. (Morliny) and Comtim Group SRL (Comtim) reported in the International segment for approximately \$71.3 million plus the assumption of certain liabilities. Morliny is a meat processor in Poland, and Comtim is an integrated meat processing company in Romania. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling \$21.5 million.

In November 2004 (fiscal 2005), the Company also acquired majority positions in two companies reported in the Pork segment for approximately \$31.4 million plus the assumption of certain liabilities. The balance of the purchase price in excess of the fair value of the assets acquired and liabilities assumed at the date of acquisition was recorded as goodwill totaling \$26.6 million.

In July 2004 (fiscal 2005), the Company acquired Jean Caby S.A. and related companies (Jean Caby) reported in the International segment for \$33.4 million plus the assumption of certain liabilities. Jean Caby produces and markets cured and cooked processed meats including deli cooked hams, dry sausages, cocktail sausages and hot dogs. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling \$10.6 million.

Had the acquisitions of Morliny, Comtim, the two Pork segment companies and Jean Caby occurred at the beginning of the preceding fiscal year, there would not have been a material effect on sales, net income or net income per diluted share or on the Company's financial position for the 13 or 39 weeks ended January 30, 2005.

Note 3: Facility Closures

In October 2005 (fiscal 2006), the Company ceased fresh pork processing operations at its subsidiary, The Smithfield Packing Company, Incorporated's (Smithfield Packing), Smithfield facility. In November 2005 (fiscal 2006), Smithfield Packing announced that as part of its east coast restructuring plan, its facility located in Salem, Virginia would also be closed. During the 39 week period ended January 29, 2006, the Company recorded, in cost of sales, accelerated depreciation totaling \$7.9 million and an impairment charge totaling \$8.4 million related to Smithfield Packing's east coast restructuring plan.

Table of Contents

During the second quarter of fiscal 2005, the Company ceased operations at Showcase Foods, Inc. (Showcase Foods) in the Beef segment. In connection with the closing, the Company recorded a pre-tax charge of \$4.0 million related to ceasing the use of certain leased equipment. During the 39 weeks ended January 30, 2005, Showcase Foods incurred operating losses of \$5.1 million.

Note 4: Investments

Investments consist of the following:

(In millions)	January 29, 2006	May 1, 2005
Five Rivers Ranch Cattle Feeding LLC (Five Rivers)	\$ 159.1	\$ 138.6
Campofrío Alimentación S.A. (Campofrío)	142.8	44.1
Agroindustrial del Noroeste (Norson)	48.5	46.8
Carolina Turkeys	44.2	26.3
Granjas Carroll de Mexico (Granjas)	32.4	61.3
Other	62.1	61.3
Total investments	\$ 489.1	\$ 317.1

Five Rivers

In October 2004 (fiscal 2005), the Company acquired MF Cattle Feeding, Inc. (MFI) for approximately \$56.7 million. The principal assets of MFI were three cattle feedlots in Colorado and one in Idaho. The one-time feeding capacity of the feedlots, which were operated by the Beef segment, was 357,000 head. The acquired assets did not include any of the cattle located on the feedlots. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling \$7.0 million.

In May 2005 (fiscal 2006), the Company and ContiGroup Companies, Inc. (ContiGroup) completed the formation of Five Rivers, a 50/50 joint venture between their respective cattle feeding businesses, MFI and ContiBeef LLC (ContiBeef). The Company's contribution to date has consisted of \$104.8 million in cash and \$43.6 million of net assets. Five Rivers is a stand-alone operating company, independent from both the Company and ContiGroup, currently headquartered in Boulder, Colorado, with a total of ten feedlots located in Colorado, Idaho, Kansas, Oklahoma and Texas, having a combined one-time feeding capacity of 811,000 head making it the largest commercial cattle feeding operation in the U.S. Five Rivers sells cattle to multiple U.S. beef packing firms throughout the U.S. using a variety of marketing methods that were already in place at MFI and ContiBeef.

Campofrío

In December 2005 and January 2006 (fiscal 2006), in several separate transactions, the Company purchased a total of 314,000 additional shares of Campofrío for approximately \$4.9 million. The Company currently holds 12,109,559 shares, or 23%, of the outstanding shares of Campofrío.

Note 5: Inventories

Inventories consist of the following:

(In millions)	January 29, 2006	May 1, 2005
Fresh and processed meats	\$ 630.1	\$ 636.4
Live hogs	488.3	482.1
Live cattle	264.9	373.2
Manufacturing supplies	66.2	61.3
Other	154.0	161.4

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Fair value derivative instrument adjustment

3.5

Total inventories	\$	1,603.5	\$	1,717.9
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Table of Contents**Note 6: Debt Issuances**

During the 39 weeks ended January 29, 2006, the Company's Polish subsidiaries, in the International segment, issued \$211.6 million in variable interest term debt due 2010. The interest rates are based on ranges of WIBOR + 0.75 to WIBOR + 0.92.

In August 2005 (fiscal 2006), the Company entered into a \$1.0 billion secured revolving credit agreement (the New Credit Agreement) that replaced the Company's then existing credit facility (the Old Credit Agreement). The New Credit Agreement matures in August 2010. The amount committed under the New Credit Agreement may be increased up to \$1.35 billion at the Company's request under certain conditions. The Company may draw down funds as a revolving loan or a swingline loan and obtain letters of credit under the New Credit Agreement. The proceeds of any borrowings under the New Credit Agreement may be used to finance working capital needs and for other general corporate purposes of the Company.

In November 2004 (fiscal 2005), the Company issued \$200.0 million of seven-year, 7% senior unsecured notes due 2011. The notes issued in November were issued at 106% of par to yield 5.9%. In August 2004 (fiscal 2005), the Company issued \$400.0 million of seven-year, 7% senior unsecured notes due 2011. Net proceeds of the sale of these notes were used to repay indebtedness under the Old Credit Agreement.

Note 7: Guarantees

As of January 29, 2006, the Company has guarantees for the financial obligations of certain unconsolidated joint ventures and hog farmers. The financial obligations are: \$92.0 million of debt borrowed by Norson; up to \$3.5 million of liabilities with respect to currency swaps executed by Granjas; and \$2.5 million with respect to debt borrowed by one of the Company's Brazilian joint ventures, Carroll's Foods do Brasil S.A. The covenants in the guarantee relating to Norson's debt incorporate the Company's covenants under the New Credit Agreement.

Note 8: Pension Plans

Net periodic pension costs consist of the following:

(In millions)	13 Weeks Ended		39 Weeks Ended	
	January 29, 2006	January 30, 2005	January 29, 2006	January 30, 2005
Service cost	\$ 5.9	\$ 5.7	\$ 17.7	\$ 17.2
Interest cost	13.8	13.9	41.4	41.6
Expected return on plan assets	(15.6)	(14.7)	(46.7)	(44.1)
Net amortization	2.0	2.2	5.9	6.5
Net periodic pension costs	\$ 6.1	\$ 7.1	\$ 18.3	\$ 21.2

Note 9: Shareholders Equity*Stock Options*

The Company uses the fair value method to account for stock options granted after fiscal 2002. The Company records compensation expense for stock options based on their fair value as determined using the Black-Scholes option pricing model and weighted average assumptions. During the 13 and 39 weeks ended January 29, 2006 and January 30, 2005, the impact of recording compensation expense for stock options granted after fiscal 2002 was less than one cent per diluted share.

Table of Contents

Stock options granted prior to fiscal 2003 continue to be accounted for under APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) until they are modified or vested. Under APB 25, no compensation expense is recorded. Had the Company used the fair value method to determine compensation expense for its stock options granted prior to fiscal 2003, net income and net income per basic and diluted share would have been as follows:

(In millions, except per share data)	13 Weeks Ended		39 Weeks Ended	
	January 29, 2006	January 30, 2005	January 29, 2006	January 30, 2005
Net income, as reported	\$ 71.0	\$ 97.5	\$ 171.6	\$ 210.8
Pro forma net income	70.4	96.7	169.6	208.4
Net income per share, as reported:				
Basic	.64	.88	1.54	1.90
Diluted	.63	.87	1.53	1.88
Pro forma net income per share:				
Basic	.64	.87	1.53	1.87
Diluted	.63	.86	1.51	1.86

Stock Option Transactions

The Company's stock option transactions for the 39 weeks ended January 29, 2006 consist of the following:

	Number of Shares	Weighted Average
		Exercise Price
Outstanding at May 1, 2005	4,114,000	\$ 16.90
Granted	110,000	31.86
Exercised	145,000	11.12
Canceled		
Outstanding at January 29, 2006	4,079,000	\$ 17.29

Stock Held in Trust

During the 13 and 39 weeks ended January 29, 2006, the Company purchased, for contribution to two non-qualified benefit plans, 2,189 shares and 1,520,870 shares, respectively, of Company stock at average prices of \$30.09 per share and \$28.18 per share, respectively. The plans currently hold 1,870,870 shares at an average cost of \$27.66 per share.

Share Repurchases

The Company has been authorized to repurchase up to 20.0 million shares of its common stock. During the 39 weeks ended January 29, 2006, the Company repurchased 230,000 shares of its common stock at an average price of \$29.52 per share. As of January 29, 2006, the Company had remaining authorization to repurchase 2,873,430 shares of common stock under the share repurchase program.

Note 10: Comprehensive Income

Comprehensive income, net of tax, consists of the following:

(In millions)	13 Weeks Ended		39 Weeks Ended	
	January 29, 2006	January 30, 2005	January 29, 2006	January 30, 2005
Net income	\$ 71.0	\$ 97.5	\$ 171.6	\$ 210.8

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Hedge accounting	32.3	6.8	7.7	(28.5)
Unrealized gain on securities		0.2	1.3	0.2
Foreign currency translation	(8.0)	23.8	(10.9)	33.2
Total comprehensive income	\$ 95.3	\$ 128.3	\$ 169.7	\$ 215.7

Table of Contents**Note 11: Derivatives and Hedging Activities**

The fair value gain (loss) on open derivative instruments consists of the following:

(In millions)	January 29, 2006	May 1, 2005
Livestock	\$ 26.9	\$ (1.6)
Grains	(2.0)	(3.2)
Interest rates	(8.1)	(5.2)
Foreign currency	(4.5)	(2.0)

Note 12: Segment Data

The Company conducts its business through six reporting segments, Pork, Beef, International, HP, Other and Corporate. Prior to the fourth quarter of fiscal 2005, the Company conducted its business through five reporting segments, Pork, Beef, HP, Other and Corporate.

The Pork segment consists mainly of eight wholly- or majority-owned U.S. fresh pork and processed meats subsidiaries. The Beef segment is composed mainly of two U.S. beef processing subsidiaries and the Company's cattle feeding operations and interest in cattle feeding operations. The HP segment consists primarily of hog production operations located in the U.S., Poland and Romania. The International segment is comprised of international meat processing operations, mainly in France, Poland and Romania and the Company's interests in international meat processing operations, mainly in Mexico and Spain. The Other segment is mainly comprised of the Company's turkey production operations, its interests in turkey processing operations and the Company's biodiesel renewable energy project. Each of the segments has certain joint ventures and other investments in addition to its main operations.

Table of Contents

Sales and operating profit by reportable segment for the fiscal periods indicated consist of the following:

(In millions)	13 Weeks Ended		39 Weeks Ended	
	January 29, 2006	January 30, 2005	January 29, 2006	January 30, 2005
Sales:				
Segment sales				
Pork	\$ 1,967.1	\$ 2,062.3	\$ 5,648.5	\$ 5,710.0
Beef	603.0	551.6	2,007.6	1,673.5
International	287.6	310.3	869.5	724.4
Hog Production	432.8	544.3	1,389.3	1,598.0
Other	39.2	36.6	115.9	110.8
Total segment sales	\$ 3,329.7	\$ 3,505.1	\$ 10,030.8	\$ 9,816.7
Intersegment sales				
Pork	\$ (12.4)	\$ (5.9)	\$ (38.2)	\$ (18.9)
Beef	(5.8)	(5.3)	(19.2)	(11.2)
International	(9.2)	(9.7)	(32.8)	(26.6)
Hog Production	(354.4)	(424.1)	(1,137.0)	(1,329.1)
Total intersegment sales	(381.8)	(445.0)	(1,227.2)	(1,385.8)
Consolidated sales	\$ 2,947.9	\$ 3,060.1	\$ 8,803.6	\$ 8,430.9
Operating profit(1):				
Pork	\$ 89.7	\$ 49.8	\$ 128.0	\$ 111.5
Beef	2.2	(0.2)	5.2	(7.0)
International	1.6	5.5	(4.9)	12.3
Hog Production	64.7	145.1	282.7	342.9
Other	9.0	8.4	26.7	21.8
Corporate	(22.1)	(24.8)	(65.7)	(67.2)
Consolidated operating profit	\$ 145.1	\$ 183.8	\$ 372.0	\$ 414.3

- (1) The Company includes equity in income of affiliates in its calculation of operating profit. Equity in income of affiliates represents income from businesses in which the Company does not hold a controlling interest but which businesses operate in similar lines of business as the Company.

Changes in the carrying amount of goodwill by reportable segment for the 39 weeks ended January 29, 2006 consist of the following:

(In millions)	Pork	Beef	Int l.	HP	Other	Total
Balance, May 1, 2005	\$ 131.3	\$ 128.7	\$ 149.3	\$ 175.1	\$ 19.9	\$ 604.3
Goodwill contributed to joint-venture		(7.0)				(7.0)
Other goodwill adjustments(2)	4.3	(5.4)	(8.0)	0.9	(0.3)	(8.5)
Balance, January 29, 2006	\$ 135.6	\$ 116.3	\$ 141.3	\$ 176.0	\$ 19.6	\$ 588.8

- (2) Other goodwill adjustments include deferred tax, foreign currency translation and purchase price adjustments.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

This discussion of management's views on the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements.

The Company conducts its business through six reporting segments, Pork, Beef, Hog Production (HP), International, Other and Corporate, each of which is comprised of a number of subsidiaries. Prior to the fourth quarter of fiscal 2005, the Company conducted its business through five reporting segments, Pork, Beef, HP, Other and Corporate.

The Pork segment consists mainly of eight wholly- or majority-owned U.S. fresh pork and processed meats subsidiaries. The Beef segment is composed mainly of two U.S. beef processing subsidiaries and the Company's cattle feeding operations and interest in cattle feeding operations. The HP segment consists primarily of hog production operations located in the U.S., Poland and Romania. The International segment is comprised of international meat processing operations, mainly in France, Poland and Romania, and the Company's interests in international meat processing operations, mainly in Mexico and Spain. The Other segment is mainly comprised of the Company's turkey production operations, its interests in turkey processing operations and the Company's biodiesel renewable energy project. Each of the segments has certain joint ventures and other investments in addition to its main operations.

RESULTS OF OPERATIONS

Overview

General Factor Affecting the Results of Operations

Live hog market prices averaged \$43 and \$47 per hundred weight during the 13 and 39 weeks ended January 29, 2006, respectively, which were 21% and 14% below the prior year periods, respectively. Partially offsetting these decreases were lower grain costs for the 13 and 39 weeks ended January 29, 2006 which resulted in raising costs of \$38 and \$39 per hundred weight, respectively, compared to \$41 and \$42 per hundred weight, respectively, in the prior year periods.

Facility Closures

In October 2005 (fiscal 2006), the Company ceased fresh pork processing operations at its subsidiary, The Smithfield Packing Company, Incorporated's (Smithfield Packing), Smithfield facility. In November 2005 (fiscal 2006), Smithfield Packing announced that as part of its east coast restructuring plan, its facility located in Salem, Virginia would also be closed. During the 39 week period ended January 29, 2006, the Company recorded, in cost of sales, accelerated depreciation totaling \$7.9 million and an impairment charge totaling \$8.4 million related to Smithfield Packing's east coast restructuring plan.

Despite the Company's efforts to build a viable business in the Beef segment at the Showcase Foods, Inc. (Showcase Foods) facility, Showcase Foods continued to incur operating losses, and the Company ceased operations there in the second quarter of fiscal 2005. Through the third quarter of fiscal 2005, Showcase Foods had incurred operating losses of \$5.1 million and the Company recorded a pre-tax charge of \$4.0 million related to ceasing the use of certain leased equipment. The Company does not currently expect to incur further charges related to the closing of the Showcase Foods facility.

Table of Contents*Acquisitions and Investments*

In November 2004 (fiscal 2005), the Company acquired Morliny S.A. (Morliny) and Comtim Group SRL (Comtim) reported in the International segment for \$71.3 million plus the assumption of certain liabilities. Morliny is a meat processor in Poland and Comtim is an integrated meat processing company in Romania.

In November 2004 (fiscal 2005), the Company also acquired majority positions in two companies reported in the Pork segment for \$31.4 million plus the assumption of certain liabilities.

In October 2004 (fiscal 2005), the Company acquired MF Cattle Feeding, Inc. (MFI) for \$56.7 million.

In May 2005 (fiscal 2006), the Company and ContiGroup Companies, Inc. (ContiGroup) completed the formation of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50/50 joint venture between their respective cattle feeding businesses, MFI and ContiBeef LLC (ContiBeef). The Company has contributed \$104.8 million in cash and \$43.6 million of net assets to the joint venture. Five Rivers is a stand-alone operating company, independent from both the Company and ContiGroup, currently headquartered in Boulder, Colorado, with a total of ten feedlots located in Colorado, Kansas, Oklahoma and Texas, having a combined one-time feeding capacity of 811,000 head making it the largest commercial cattle feeding operation in the U.S. Five Rivers sells cattle to multiple U.S. beef packing firms throughout the U.S. using a variety of marketing methods that were already in place at MFI and ContiBeef.

In July 2004 (fiscal 2005), the Company acquired Jean Caby S.A. and related companies (Jean Caby) reported in the International segment for \$33.4 million plus the assumption of certain liabilities. Jean Caby produces and markets cured and cooked processed meats including deli cooked hams, dry sausages, cocktail sausages, and hot dogs.

In December 2005 and January 2006 (fiscal 2006), in several separate transactions, the Company purchased a total of 314,000 additional shares of Campofrío Alimentación S.A. (Campofrío) for approximately \$4.9 million. In August 2004 (fiscal 2005) the Company purchased a total of 3,787,265 additional shares of Campofrío for \$48.8 million. The Company currently holds 12,109,559 shares, or 23% of the outstanding shares of Campofrío.

Results of Operations for the Thirteen Weeks Ended January 29, 2006 and January 30, 2005

Sales by reportable segment for the fiscal periods indicated consist of the following:

(In millions)	January 29, 2006	13 Weeks Ended January 30, 2005	\$ Change
Pork	\$ 1,967.1	\$ 2,062.3	\$ (95.2)
Beef	603.0	551.6	51.4
International	287.6	310.3	(22.7)
Hog Production	432.8	544.3	(111.5)
Other	39.2	36.6	2.6
	3,329.7	3,505.1	(175.4)
Intersegment sales	(381.8)	(445.0)	63.2
Total sales	\$ 2,947.9	\$ 3,060.1	\$ (112.2)

Total sales decreased \$112.2 million, or four percent, to \$2,947.9 million in the 13 weeks ended January 29, 2006 from \$3,060.1 million in the 13 weeks ended January 30, 2005.

Pork segment sales decreased \$95.2 million, or five percent, to \$1,967.1 million for the 13 weeks ended January 29, 2006 from \$2,062.3 million for the 13 weeks ended January 30, 2005. Total pork volumes remained

Table of Contents

the same with fresh pork volumes decreasing one percent and processed meats volumes increasing two percent. Average unit selling prices in the Pork segment decreased five percent reflecting the effect of decreased raw material costs.

Beef segment sales increased \$51.4 million, or nine percent, to \$603.0 million for the 13 weeks ended January 29, 2006 from \$551.6 million for the 13 weeks ended January 30, 2005. The increase in Beef segment sales was due mainly to a seven percent increase in total volumes and a two percent increase in the average unit selling price. Also contributing to the increase was an \$8.5 million increase in cattle feed lot sales to third parties.

International segment sales decreased \$22.7 million, or seven percent, to \$287.6 million for the 13 weeks ended January 29, 2006 from \$310.3 million for the 13 weeks ended January 30, 2005. The decrease in sales in the International segment was mainly due to an eight percent decrease in the average unit selling price, primarily due to the effect of foreign currencies and a change in product mix from last years quarter. Total fresh pork and processed meats volumes in the International segment, including acquisitions, remained the same with fresh pork volumes increasing 27% and processed meats volumes decreasing 15% percent primarily due to difficult industry conditions in Poland and France. Average unit selling prices decreased eight percent primarily due to the effect of foreign currencies.

Hog Production segment sales decreased \$111.5 million, or 20%, to \$432.8 million for the 13 weeks ended January 29, 2006 from \$544.3 million for the 13 weeks ended January 30, 2005. The decrease in HP segment sales was due to a 21% decrease in live hog market prices in the U.S. market and a five percent decrease in the number of domestic head sold, partially offset by increased international production.

Other segment sales increased \$2.6 million, or seven percent, to \$39.2 million for the 13 weeks ended January 29, 2006 from \$36.6 million for the 13 weeks ended January 30, 2005. The Company's Other segment continued to have strong results in its turkey operations due to favorable pricing.

Gross profit decreased \$24.4 million, or seven percent, to \$325.5 million for the 13 weeks ended January 29, 2006 from \$349.9 million for the 13 weeks ended January 30, 2005. The decrease was mainly the result of decreased live hog market prices in the HP segment partially offset by increased margins on fresh pork and processed meats in the Pork segment.

Selling, general and administrative expenses increased \$13.5 million, or eight percent, to \$183.5 million for the 13 weeks ended January 29, 2006 from \$170.0 million for the 13 weeks ended January 30, 2005. This increase was mainly due to the inclusion of acquired businesses, lower foreign exchange gains and increased marketing expenses which were partially offset by lower variable compensation.

Equity in income of affiliates decreased \$0.8 million, or 21%, to \$3.1 million for the 13 weeks ended January 29, 2006 from \$3.9 million for the 13 weeks ended January 30, 2005.

Operating profit by reportable segment for the fiscal periods indicated consists of the following:

(In millions)	January 29, 2006	13 Weeks Ended January 30, 2005	\$ Change
Pork	\$ 89.7	\$ 49.8	\$ 39.9
Beef	2.2	(0.2)	2.4
International	1.6	5.5	(3.9)
Hog Production	64.7	145.1	(80.4)
Other	9.0		