

SMITHFIELD FOODS INC
Form 10-Q
September 08, 2006
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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 July 30, 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 ☐

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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. 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 August 31, 2006, 111,305,692 shares of the Registrant's Common Stock (\$.50 per value per share) were outstanding.

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SMITHFIELD FOODS, INC.

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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	
	July 30, 2006	July 31, 2005
	(unaudited)	
Sales	\$ 2,772.9	\$ 2,929.5
Cost of sales	2,495.2	2,655.8
Gross profit	277.7	273.7
Selling, general and administrative expenses	173.2	170.8
Interest expense	40.9	37.4
Equity in (income) loss of affiliates	6.1	(7.8)
Income from continuing operations before income taxes	57.5	73.3
Income taxes	18.6	24.3
Income from continuing operations	38.9	49.0
Loss from discontinued operation, net of tax of \$(2.2)	(3.9)	
Loss on sale of discontinued operation, net of tax of \$(5.9)	(10.4)	
Net income	\$ 24.6	\$ 49.0
Income per share:		
Basic		
Continuing operations	.35	.44
Discontinuing operations	(.13)	
Net income per common share	\$.22	\$.44
Diluted		
Continuing operations	.35	.44
Discontinued operations	(.13)	
Net income per basic diluted common share	\$.22	\$.44
Weighted average shares:		
Weighted average basic shares	111.2	111.1
Effect of dilutive stock options	0.9	1.0
Weighted average diluted shares	112.1	112.1

See Notes to Consolidated Condensed Financial Statements

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

(in millions, except share data)

	July 30, 2006 (Unaudited)	April 30, 2006
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 89.5	\$ 89.4
Accounts receivable, net	673.6	650.8
Inventories	1,651.8	1,585.2
Prepaid expenses and other current assets	82.5	63.4
Assets of discontinued operations held for sale	49.6	30.8
Total current assets	2,547.0	2,419.6
Property, plant and equipment	3,394.9	3,325.6
Accumulated depreciation	(1,266.4)	(1,259.6)
Property, plant and equipment, net	2,128.5	2,066.0
Goodwill	726.8	720.9
Investments	463.2	487.6
Other	445.0	453.1
Assets of discontinued operations held for sale		29.3
Total assets	\$ 6,310.5	\$ 6,176.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities:</i>		
Notes payable	\$ 51.9	\$ 43.1
Current portion of long-term debt and capital lease obligations	216.1	215.7
Accounts payable	496.7	539.9
Accrued expenses and other current liabilities	415.4	409.2
Liabilities of discontinued operations held for sale	84.2	33.9
Total current liabilities	1,264.3	1,241.8
Long-term debt and capital lease obligations	2,444.7	2,313.9
Other	528.5	517.3
Liabilities of discontinued operations held for sale		57.0
Total liabilities	4,237.5	4,130.0
Minority interests	19.1	18.3
<i>Commitments and contingencies</i>		
<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; 111,181,692 and 111,167,542 issued and outstanding	55.6	55.6

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Additional paid-in capital	494.4	494.1
Stock held in trust	(51.9)	(51.8)
Retained earnings	1,582.6	1,558.0
Accumulated other comprehensive loss	(26.8)	(27.7)
Total shareholders' equity	2,053.9	2,028.2
Total liabilities and shareholders' equity	\$ 6,310.5	\$ 6,176.5

See Notes to Consolidated Condensed Financial Statements

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

(in millions)

	13 Weeks Ended	
	July 30, 2006	July 31, 2005
	(Unaudited)	
<i>Cash flows from operating activities:</i>		
Net income	\$ 24.6	\$ 49.0
Adjustments to reconcile net cash flows from operating activities:		
Loss from discontinued operation, net of tax	3.9	
Loss on sale of discontinued operation, net of tax	10.4	
Impairment loss	4.2	
Depreciation and amortization	60.7	50.9
Changes in operating assets and liabilities and other, net of effect of acquisitions:		
Accounts receivable	(18.6)	10.4
Inventories	(63.6)	93.1
Accounts payable	(45.7)	(24.2)
Accrued expenses and other liabilities	(48.6)	(67.3)
Other	50.0	(12.2)
Net cash flows from operating activities	(22.7)	99.7
<i>Cash flows from investing activities:</i>		
Capital expenditures, net of proceeds from disposals	(106.5)	(66.0)
Investments	(3.5)	(69.2)
Net cash flows from investing activities	(110.0)	(135.2)
<i>Cash flows from financing activities:</i>		
Proceeds from the issuance of long-term debt and notes payable	12.8	50.0
Principal payments on long-term debt and capital lease obligations	(31.9)	(9.6)
Net borrowings on revolving credit facility	151.7	9.0
Other	0.2	1.9
Net cash flows from financing activities	132.8	51.3
<i>Cash flows from discontinued operations:</i>		
Net cash flows from operating activities	3.3	(3.6)
Net cash flows from investing activities	(0.6)	(2.1)
Net cash flows from financing activities	(2.7)	5.7
Net cash flows from discontinued operations activities		
Effect of foreign exchange rate changes on cash		(2.0)
Net change in cash and cash equivalents	0.1	13.8
Cash and cash equivalents at beginning of period	89.4	84.8
Cash and cash equivalents at end of period	\$ 89.5	\$ 98.6

See Notes to Consolidated Condensed Financial Statements

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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 composed of a number of subsidiaries.

These statements should be read in conjunction with the audited consolidated financial statements and the related notes for the three-year period ended April 30, 2006, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2006. 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: New Accounting Pronouncement

In July 2006 (fiscal 2007), the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an *Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for the Company beginning with the first quarter of fiscal 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements.

Note 3: Acquisition

The following acquisition was 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 date of acquisition. See Note 14: Subsequent Events.

In April 2006 (fiscal 2006), the Company completed the acquisition of substantially all of the assets of Cook's Hams, Inc. (Cook's) in the Pork segment for approximately \$260.3 million plus a \$41.0 million working capital adjustment. Cook's, based in Lincoln, Nebraska, is a producer of traditional and spiral sliced smoked bone-in hams, corned beef and other smoked meat items sold to supermarket chains and grocers throughout the U.S. and Canada. The Company recorded the fair value of trademarks totaling \$75.0 million and the preliminary 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 \$130.7 million.

Had the acquisition of Cook's 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 weeks ended July 31, 2005.

Table of Contents**Note 4: Discontinued Operation**

In June 2006 (fiscal 2007), the Company reported that it had signed a letter of intent, subject to a definitive agreement, to sell substantially all of the assets and business of Quik-to-Fix Foods, Inc. (Quik-to-Fix). As a result, Quik-to-Fix is being reported as a discontinued operation. During the first quarter of fiscal 2007, the Company recorded an after-tax write down on the assets of Quik-to-Fix totaling \$10.4 million, net of tax of \$5.9 million, in anticipation of the sale. Sales of Quik-to-Fix were \$17.0 million and \$26.2 million for the 13 weeks ended July 30, 2006 and July 31, 2005, respectively. Quik-to-Fix had an after tax loss of \$3.9 million, net of tax of \$2.2 million, for the 13 weeks ended July 30, 2006 and was approximately break even for the 13 weeks ended July 31, 2005. See Note 14: Subsequent Events.

Note 5: Investments

Investments consist of the following:

(In millions)	July 30, 2006	April 30, 2006
Five Rivers Ranch Cattle Feeding LLC (Five Rivers)	\$ 147.6	\$ 157.3
Campofrío Alimentación S.A. (Campofrío)	140.3	143.4
Agroindustrial del Noroeste (Norson)	48.7	47.1
Carolina Turkeys	42.1	45.3
Granjas Carroll de Mexico (Granjas)	29.7	31.4
Other	54.8	63.1
Total investments	\$ 463.2	\$ 487.6

Five Rivers

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, MF Cattle Feeding, Inc. (MFI) and ContiBeef LLC (ContiBeef). The Company's contribution consisted of \$104.3 million in cash and \$43.6 million of net assets.

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 \$4.9 million. The Company currently holds 12,098,559 shares, or 23%, of the outstanding shares of Campofrío.

Note 6: Inventories

Inventories consist of the following:

(In millions)	July 30, 2006	April 30, 2006
Fresh and processed meats	\$ 649.0	\$ 644.4
Live hogs	496.7	486.2
Live cattle	329.1	294.8
Manufacturing supplies	60.0	&nbs