SMITHFIELD FOODS INC
Form 424B5
September 17, 2009
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered[1]	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee[2]
Common Stock, par value $.50 per share, with associated rights to purchase Smithfield Foods, Inc. Series A Junior Participating Preferred Stock[3]	24,909,746	$13.85	$344,999,982	$19,251

(1) Includes shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(2) This Calculation of Registration Fee table updates the Calculation of Registration Fee table in the Company s Registration Statement of Form S-3 (File No. 333-143727) in accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended.

(3) Each share of common stock will be issued with an associated right to purchase Smithfield Foods, Inc. s Series A Junior Participating Preferred Stock in accordance with the Rights Agreement, dated as of May 30, 2001, between Smithfield Foods, Inc. and Computershare Investor Services, LLC, as rights agent.

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Filed Pursuant to Rule 424(b)(5)

File No. 333-143727

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 14, 2007)

21,660,649 Shares

COMMON STOCK

Smithfield Foods, Inc. is offering 21,660,649 shares of our common stock, par value $.50 per share. Our common stock is listed on the New York Stock Exchange (the NYSE) under the symbol SFD. The closing price of our common stock on the NYSE on September 16, 2009 was $14.18 per share.

Investing in shares of our common stock involves significant risks. See the Risk Factors beginning on page S-4 of this prospectus supplement and discussed in our Annual Report on Form 10-K for the fiscal year ended May 3, 2009 and the Risk Factors beginning on page 40 of our Quarterly Report on Form 10-Q for the quarter ended August 2, 2009.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	***Total***
Price to the public	*$13.8500*	*$299,999,989*

Underwriting discounts and commissions	*$0.6042*	*$13,087,364*
Proceeds to Smithfield Foods, Inc. (before expenses)	*$13.2458*	*$286,912,625*

We have granted the underwriters an option exercisable for a period of 30 days from the date of this prospectus supplement to purchase, from time to time, up to an aggregate of 3,249,097 additional shares of common stock at the public offering price, less the underwriting discount, to the extent the underwriters sell more than 21,660,649 shares of common stock in this offering.

The underwriters expect to deliver the shares of the common stock against payment in New York, New York on or about September 22, 2009.

Joint Book-Running Managers

Morgan Stanley *Goldman, Sachs & Co.* *Barclays Capital* *J.P.Morgan*

Senior Co-Managers

Rabo Securities USA, Inc. *BMO Capital Markets*

Co-Managers

ING Wholesale *Societe Generale* *Piper Jaffray*

September 16, 2009

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading Where You Can Find More Information in the accompanying prospectus.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

In making your investment decision, you should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus may be used only for the purpose for which they have been prepared. We have not, and the underwriters have not, authorized any other person to provide you with any other information. If you receive any other information, you should not rely on it. We and the underwriters are offering to sell our shares of common stock only in places where offers and sales are permitted.

You should not assume that the information provided in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front cover of this prospectus supplement or the date of the accompanying prospectus or that the information incorporated by reference in this prospectus supplement is accurate as of any date other than the date of the incorporated document. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this prospectus supplement.

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference herein may contain forward-looking statements with respect to our current views and estimates of future economic circumstances, industry conditions in domestic and international markets, our performance, financial condition, liquidity and financial results. These forward-looking statements are subject to a number of factors and uncertainties that could cause our actual results and experiences to differ materially from the anticipated results and expectations expressed in such forward-looking statements. Readers should not place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data. Among the factors that may cause actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements are the following:

- fluctuations in the commodity prices for livestock (primarily hogs) and grains;

- fluctuations in the prices and availability of other raw materials and fuel;

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

any perceived or real health risks related to the food industry or increased regulation, which could adversely affect our ability to sell our products, such as the impact of the recent outbreak of the A(H1N1) virus;

- compliance with and changes to environmental laws, and litigation related to environmental laws;
- actions by domestic and foreign governmental authorities restricting our ability to own livestock or to engage in farming or restricting such operations generally;
- risks related to our level of indebtedness and the terms of our indebtedness;
- our ability to successfully execute and implement the pork restructuring plan;
- risks associated with our international sales and operations;
- hedging risk and risks related to changes in interest rates and foreign exchange rates;
- adverse results from litigation;
- changes in the availability and relative costs of labor and our ability to maintain good relationships with employees and labor unions;
- consolidation of our customers;
- any impairment in the carrying value of goodwill, which could negatively impact our consolidated results of operations and net worth;
- the effect of, or changes in, national or global economic conditions; and
- those factors listed under the Risk Factors section of this prospectus supplement and under the items entitled Risk Factors in the Company s annual report filed on Form 10-K for the year ended May 3, 2009 (incorporated by reference herein) and the Company s quarterly report filed on Form 10-Q for the quarter ended August 2, 2009 (incorporated herein by reference).

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including (without limitation) general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes. See also Where You Can Find More Information in this prospectus supplement.

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SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus and does not contain all the information that you should consider before investing in our common stock. You should carefully read the entire prospectus supplement, including the section entitled Risk factors on page S-4, the accompanying prospectus, our Annual Report on Form 10-K for the year ended May 3, 2009, our Quarterly Report on Form 10-Q for the quarter ended August 2, 2009, our financial statements and the related notes and the other documents incorporated into this prospectus supplement and the accompanying prospectus by reference, before making an investment decision. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters option to purchase additional shares of our common stock.

Unless otherwise indicated or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to Smithfield, we, our, us and the Company are to Smithfield Foods, Inc. and its consolidated subsidiaries.

Our Company

Smithfield Foods, Inc., together with its subsidiaries, 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 meat 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. Additionally, some of the key factors influencing our business are customer preferences and demand for our products; the 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 five reporting segments: Pork, International, Hog Production, Other and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, as well as our interests in meat processing operations, mainly in Western Europe, Mexico and China, including our 37% interest in Campofrío Food Group, the largest pan-European company in the packaged meat sector and one of the five largest worldwide. The Hog Production segment consists of our hog production operations located in the U.S., Poland and Romania as well as our interests in hog production operations in Mexico. The Other segment is comprised of our turkey production operations, our 49% interest in Butterball, and through the first quarter of fiscal 2010, our live cattle operations. The Corporate segment provides management and administrative services to support our other segments.

Over the past few decades, we have completed numerous acquisitions. Recently, our overall focus has shifted from acquisitions to integration, driving operating efficiencies and growing our packaged meats business to fully leverage the benefits of our prior acquisitions. Additionally, we are currently focused on reducing and restructuring our debt and eliminating non-core or under-performing businesses.

Recent Developments

Additional Senior Secured Notes Offering

On July 2, 2009, we issued $625 million in principal amount of our 10% Senior Secured Notes due 2014 (the Initial Senior Secured Notes) at a price equal to 96.201% of their face value. On August 14, 2009, we issued an additional $225 million in principal amount of our 10% Senior Secured Notes due 2014 (the Additional Senior Secured Notes) at a price equal to 104.0% of their face value. The Initial Senior Secured Notes and the Additional Senior Secured Notes constitute one series of notes and were issued under the same indenture and with identical terms and conditions (other than the issue date and issue price).

Termination of European Credit Facility

On August 14, 2009, we repaid in full all of our obligations under the Multicurrency Revolving Facility Agreement, dated August 22, 2006 among the Company, Smithfield Capital Europe BV, the subsidiary guarantors party thereto, BNP Paribas and Societe General Corporate & Investment Banking, as Arrangers, the lenders party thereto, and Societe Generale as Agent and Security Agent (as amended, the European Credit Facility) from the proceeds of our August 14, 2009 offering of Additional Senior Secured Notes, together with other available cash. The European Credit Facility was terminated and, as of the date of this prospectus supplement, we do not have any outstanding obligations under such facility.

Increase of Authorized Shares of Common Stock

On August 26, 2009, our shareholders approved an amendment to our Articles of Incorporation to increase the number of authorized shares of our common stock from 200 million to 500 million.

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THE OFFERING

The following is a brief summary of some of the terms of this offering. For a more complete description of our common stock, see Description of Common Stock in this prospectus supplement. In this summary, the words Smithfield, we, us and our refers only to Smithfield Foods, Inc. and not any of its subsidiaries.

Issuer	Smithfield Foods, Inc.
Common stock offered	21,660,649 shares (or 24,909,746 shares if the underwriters over-allotment option is exercised in full), including associated rights to purchase one two-thousandth of a share of our Series A Junior Participating Preferred Stock.
Option to purchase additional shares of common stock	We have granted the underwriters an option exercisable for a period of 30 days from the date of this prospectus supplement to purchase up to an additional 3,249,097 shares of common stock at the public offering price, less the underwriting discount, to cover over-allotments, if any.
Common stock to be outstanding immediately following offering	165,237,491 shares (assuming no exercise of the underwriters over-allotment option[1])
NYSE Symbol	SFD
Use of Proceeds	We estimate that the net proceeds from the sale of shares of common stock in this offering will be approximately \$286.5 million (or approximately \$329.6 million if the over-allotment option is exercised in full) after deducting estimated underwriting discounts and our expenses related to this offering. We intend to use the net proceeds from this offering for working capital and general corporate purposes, with a goal of continuing to strengthen our balance sheet, which may include the retirement of debt. See Use of Proceeds.
Risk Factors	See Risk Factors and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of certain factors that you should consider carefully before deciding to invest in shares of our common stock.

(1) The number of shares of common stock that will be outstanding after this offering is based on the number of shares outstanding on September 11, 2009 and excludes:

- 2,144,703 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$22.67 per share;
- 782,000 outstanding performance share units;

11,136,277 shares reserved for future issuance under our equity incentive plans, including shares reserved for future issuance under equity incentive plans not approved by stockholders;

22,922,600 shares reserved for issuance upon the conversion of our 4.00% Convertible Senior Unsecured Notes due 2013; and

35,265,600 shares reserved for issuance upon the exercise of outstanding warrants to purchase shares of our common stock.

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RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should carefully consider the risks described in our Annual Report on Form 10-K for the year ended May 3, 2009 and our Quarterly Report on Form 10-Q for the quarter ended August 2, 2009, as supplemented by the discussion below, and all of the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision. The risks and uncertainties described below and in such incorporated documents are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See Forward-Looking Statements in this prospectus supplement.

Risks Related to This Offering and Our Common Stock

The market price of our common stock has been and may continue to be volatile, which could cause the value of your investment to decline.

The market price of our common stock has experienced, and may continue to experience, significant volatility. During the period from September 1, 2008 to September 1, 2009, our common stock has fluctuated from a high of $23.40 per share to a low of $5.40 per share. Numerous factors, including many over which we have no control, may have a significant impact on the market price of our common stock. In addition to the risk factors discussed in our Annual Report on Form 10-K for the year ended May 3, 2009, our Quarterly Report on Form 10-Q for the quarter ended August 2, 2009 and the other documents incorporated herein by reference, the price and volume volatility of our common stock may be affected by:

- our operating and financial performance and prospects;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt or our ability to repay indebtedness under our senior secured notes, our senior unsecured notes and our asset-based credit facility;
- investor perceptions of us and the industry and markets in which we operate;
- our dividend policy;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts;

- regulatory changes affecting our industry generally or our business and operations; and
- general financial, domestic, international, economic and other market conditions.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

Future sales of our common stock or the issuance of other equity may adversely affect the market price of our common stock.

Except as described under the heading Underwriting, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. As part of this offering, we expect to issue 21,660,649 shares of common stock (or up to 24,909,746 shares of common stock if the underwriters exercise their over-allotment option in full). The issuance of additional shares of our common stock in this offering, or other issuances of our common stock or convertible securities, including our outstanding options, our performance share units and our convertible notes, or otherwise, will dilute the ownership interest of our common stockholders.

Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

Our common stock is an equity security and is subordinate to our existing and future indebtedness.

The shares of common stock are equity interests and do not constitute indebtedness. As such, the shares of common stock will rank junior to all of our indebtedness and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in a bankruptcy, liquidation or similar proceeding. Our existing indebtedness restricts, and future indebtedness may restrict, payment of dividends on the common stock.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common stock, (i) dividends are payable only when and if declared by our board of directors or a duly authorized committee of the board, and (ii) as a corporation, we are restricted to only making dividend payments and redemption payments out of legally available assets. Further, the common stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

Because we are a holding company that conducts our operations through our subsidiaries, our ability to meet our obligations, including payment of dividends on our common stock, depends on the earnings and cash flows of those subsidiaries and the ability of those subsidiaries to pay dividends or advance or repay funds to us. In addition, any of our rights (including the rights of the holders of our common stock) to participate in the assets of any of our subsidiaries upon any liquidation or reorganization of any subsidiary will be subject to the prior claims of that subsidiary s creditors (except to the extent we may ourselves be a creditor of that subsidiary), including that subsidiary s trade creditors and our creditors who have obtained guarantees from the subsidiaries. As a result, our common stock will be subordinated to our and our subsidiaries obligations and liabilities, which include borrowings under international notes and credit facilities, capital leases, with respect to our senior secured notes, our senior unsecured notes, our asset-based credit facility and our $200 million term loan with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland , New York Branch (the Rabobank Term Loan).

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not expect to pay cash dividends on our common stock, including the common stock issued in this offering. Our ability to declare and pay cash dividends on our capital stock may be limited by the terms of our existing indebtedness, including our senior secured notes, our senior unsecured notes, our asset-based credit facility and the Rabobank Term Loan, and any indentures or other financing arrangements that we enter into in the future. For example, the indentures governing our senior secured notes and our senior unsecured notes restrict our ability to make payments of dividends in cash if certain coverage ratios are not met. As of August 2, 2009, we did not meet those coverage ratios. Even if such coverage ratios were met in the future, any future dividend payments are within the absolute discretion of our board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, contractual restrictions, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant. We may not generate sufficient cash from operations in the future to pay dividends on our common stock. See Dividend Policy.

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The issuance of shares of preferred stock could adversely affect holders of common stock, which may negatively impact your investment.

Our board of directors is authorized to cause us to issue additional classes or series of preferred stock without any action on the part of the Company s stockholders. The board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred shares that may be issued, including the designation, preferences, limitations and relative rights over the common stock with respect to dividends or upon the liquidation, dissolution or winding up of our business and other terms. If we issue preferred shares in the future that have a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding up, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected.

Certain provisions of our articles of incorporation and by-laws and Virginia law and our shareholder rights plan may enable our management to resist an unwelcome takeover attempt by a third party.

Our organizational documents and Virginia law contain provisions that might discourage, delay or prevent a change in the control of our company or a change in our management. Our board of directors may also choose to adopt further anti-takeover measures without stockholder approval. In addition, our shareholder rights plan may deter a potential hostile acquisition or tender offer. See Description of Capital Stock Anti-takeover Effects in the accompanying prospectus. The existence and adoption of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of common stock in this offering will be approximately $286.5 million (or approximately $329.6 million if the over-allotment option is exercised in full) after deducting estimated underwriting discounts and our expenses related to this offering. We intend to use the net proceeds from this offering for working capital and general corporate purposes, with a goal of continuing to strengthen our balance sheet, which may include the retirement of debt.

Our management will retain broad discretion over the use of proceeds, and we may ultimately use the proceeds for different purposes than we currently intend.

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COMMON STOCK PRICE RANGE AND DIVIDENDS

Our common stock is listed on the NYSE under the symbol SFD. The following table sets forth the high and low sale prices, as reported on the NYSE. As of September 11, 2009, there were 143,576,842 shares of our common stock outstanding.

Fiscal Year	High	Low
2010		
Second Quarter (through September 16, 2009)	$ 14.56	$ 11.36
First Quarter	14.39	8.80
2009		
Fourth Quarter	11.95	5.55
Third Quarter	15.15	5.40
Second Quarter	26.75	11.82
First Quarter	32.18	16.61
2008		
Fourth Quarter	29.56	24.34
Third Quarter	30.75	23.75
Second Quarter	35.13	27.85
First Quarter	35.79	29.87

Stockholders

On September 16, 2009, the closing price of our common stock on the NYSE was $14.18. As of September 11, 2009, there were approximately 1,051 holders of record of our common stock.

Dividend Policy

We have never paid a cash dividend on our common stock and have no current plan to pay cash dividends. In addition, we currently do not meet the coverage ratios contained in certain of our debt agreements that are conditions for paying 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.

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CAPITALIZATION

The following table sets forth the cash and cash equivalents and capitalization of Smithfield and its subsidiaries as of August 2, 2009, on (i) an actual basis, (ii) an as-adjusted basis to give effect to (A) the sale of the $225 million of Additional Senior Secured Notes on August 14, 2009, (B) the repayment of our European Credit Facility, and (C) the application of proceeds from the sale of our beef operations in 2008 to pay off our 8.00% Senior Notes due 2009, which will occur at maturity in October 2009 (collectively, the Interim Adjustments), and (iii) an as further adjusted basis to give effect to the sale of shares of common stock offered hereby (assuming no exercise of the underwriters over-allotment option) after deducting estimated underwriting discounts and our expenses related to this offering.

Total capitalization represents total long-term debt and capital lease obligations plus total shareholders equity. This table should be read in conjunction with the consolidated financial statements and the notes thereto incorporated by reference herein and the section of our Annual Report on Form 10-K for the fiscal year ended May 3, 2009 entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of August 2, 2009 (in millions)		
	Actual	As adjusted for the Interim Adjustments	As further adjusted for the sale of shares of Common Stock
Cash and cash equivalents(1)	$ 506.6	$ 209.4	$ 495.9
Liabilities:			
U.S. ABL Credit Facility(2)			
European Credit Facility(3)	320.7		
Rabobank Term Loan	200.0	200.0	200.0
10% Senior Secured Notes due 2014(4)	601.5	835.5	835.5
8.00% Senior Notes due 2009	206.3		
7.00% Senior Notes due 2011(5)	603.7	603.7	603.7
7.75% Senior Notes due 2013	350.0	350.0	350.0
7.75% Senior Notes due 2017	500.0	500.0	500.0
4.00% Convertible Senior Unsecured Notes due 2013	321.3	321.3	321.3
Various interest rates from 0.00% to 12.50%, due September 2009 through May 2043(6)	213.3	213.3	213.3
Capital leases	4.9	4.9	4.9
Notes payable(7)	28.3	28.3	28.3
Total debt (including capital lease obligations)	3,350.0	3,057.0	3,057.0
Less current portion of long-term debt, notes payable and capital lease obligations	299.2	92.9	92.9
Total long-term debt and capital lease obligations	$ 3,050.8	$ 2,964.1	$ 2,964.1

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	As of August 2, 2009 (in millions)				
	Actual	**As adjusted for the Interim Adjustments**		**As further adjusted for the sale of shares of Common Stock**	
Shareholders Equity:					
Preferred Stock, $1.00 par value; Authorized 1,000,000 shares	$	$		$	
Common Stock, $.50 par value; Authorized 500,000,000 shares; Issued 143,576,842 (actual and as adjusted for the Interim Adjustments) and 165,237,491 (as further adjusted)	71.8	71.8			
Philip J. Young		62,500	312,500	16,750	117,750

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Equity Compensation Plan Information

As of December 31, 2005, Insmed had two equity compensation plans under which it was granting stock options and shares of non-vested stock. We are currently granting stock-based awards Restated 2000 Stock Incentive Plan (the 2000 Plan) and 2000 Employee Stock Purchase Plan (the 2000 ESPP). Both the 2000 Plan and the 2000 ESPP are administered by the Compensation Committee of the Board of Directors and the Board of Directors.

The 2000 Plan was originally adopted by the Board of Directors and approved by the stockholders in 2000 and its original ten-year term was extended to March 15, 2015 when the plan was last amended. Under the terms of the 2000 Plan, we are authorized to grant a variety of incentive awards based on Insmed common stock, including stock options (both incentive options and non-qualified options), performance shares and other stock awards. The 2000 Plan currently provides for the issuance of a maximum of 9,250,000 (adjusted for stock splits) shares of common stock. These shares are reserved for awards to all participants in the 2000 Plan, including non-employee directors.

The 2000 Employee Stock Purchase Plan (the Stock Purchase Plan) was originally adopted as of April 5, 2000 for a term of ten years and that term was extended to May 11, 2015 when the plan was last amended. The Stock Purchase Plan provides for the issuance of a maximum of 500,000 shares of Insmed common stock to participating employees.

The following table presents information as of December 31, 2005, with respect to the 2000 Plan and the 2000 ESPP.

Plan Category (1)	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (2)
Equity Compensation Plans Approved by Shareholders:			
Amended and Restated 2000 Stock Incentive Plan	5,924,930	$ 3.18	2,553,913(2)
2000 Employee Stock Purchase Plan, As Amended			182,182
Total:	5,924,930	$ 3.18	2,736,095(3)

(1) The Company does not have any equity compensation plans that have not been approved by its shareholders.
(2) Amounts exclude any securities to be issued upon exercise of outstanding options, warrants and rights.
(3) To the extent that stock options or stock appreciation rights granted under the Amended and Restated 2000 Stock Incentive Plan terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, or if any shares of restricted stock or performance units are forfeited, the shares of common stock underlying such grants will again become available for purposes of the Plan.

EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table. The following table sets forth information for the fiscal years ended December 31, 2005, 2004, and 2003, with respect to certain compensation paid by us to our named executive officers, as such term is defined in Item 402(a)(3) of Regulation S-K. Other than the executive officers listed below, none of our current executive officers received total cash compensation from us in excess of $100,000 for any of the fiscal years ended December 31, 2005, 2004, and 2003.

Name and Principal Position	Fiscal Year	Annual Compensation ($) (1) Salary (2)	Bonus (3)	Other Annual Compensation (4)	Restricted Stock Awards ($)	Long Term Compensation (1) Securities Underlying Options/ SARs (#)	Long Term Incentive Plan Payout ($)	All Other Compensation ($) (5)
Geoffrey Allan, Ph.D.(6)	2005	395,201	197,600	22,099		312,500		2,075
	2004	395,200	98,800	21,717				2,075
Chairman of the Board, Chief Executive Officer and President	2003	395,200	197,600	18,941		150,000		2,075
Ronald D. Gunn, M.B.A., M.S. (7)	2005	270,000	94,500			175,000		895
	2004	261,875	65,469					597
Executive Vice President and Chief Operating Officer	2003	190,900	57,270	203		100,000		438
Thomas A. Keuer (8)	2005	189,583	87,500			125,000		548
Senior Vice President, Insmed Therapeutic Proteins	2004	122,633	24,527			130,000		365
Andreas Sommer, Ph.D. (9)	2005	260,000	26,000	4,220		50,000		2,170
	2004	260,000	39,000	5,057				2,170
Chief Scientific Officer	2003	260,000	26,000	4,165		100,000		2,170
Kevin P. Tully, C.G.A. (10)	2005	146,083						568
	2004	176,800	44,200					851
Executive Vice President and Chief Financial Officer	2003	176,800	35,360	203		100,000		851
Philip J. Young (11)	2005	250,000	87,500			125,000		822
Executive Vice President, Commercial Operations and Chief Business Officer	2004	173,295	43,324	239,063		250,000		548

(1) Except as disclosed in the table, there was no other cash compensation, long-term incentive plan or restricted stock award that required disclosure.

(2) Includes amounts earned but deferred at the election of the executive, such as salary deferrals under Insmed s 401(k) plan.

(3) Amounts in this column reflect the aggregate annual bonuses that were earned for such fiscal year.

(4) Dr. Allan s other annual compensation for the periods indicated reflects the personal use of a vehicle provided by Insmed and, for 2003, includes $203 given to all employees by the Company as a holiday gift. Dr. Sommer s other annual compensation for the periods indicated includes compensation related to the cost of a medical reimbursement program provided by Insmed and, for 2003, includes $203 given to all employees by the Company as a holiday gift. Mr. Gunn s and Mr. Tully s other annual compensation for 2003 relates to a holiday gift given to all employees by the Company. In 2004, Mr. Young s other annual compensation related to relocation expenses paid by Insmed on his behalf.

(5) Dr. Allan s, Mr. Gunn s, Mr. Keuer s, Dr. Sommer s, Mr. Tully s and Mr. Young s other compensation for 2003, 2004 and 2005 relates to life insurance premiums for coverage in excess of $50,000.

(6) Dr. Allan served as our President, Chief Executive Officer and Chairman of the Board since our inception in November 1999.

(7) Mr. Gunn was named Executive Vice President and Chief Operating Officer effective February 1, 2004.

(8) Mr. Keuer joined Insmed Therapeutic Proteins on April 5, 2004 and was named an executive officer on May 5, 2004.

(9) Dr. Sommer joined Insmed on August 1, 2000. He is not an executive officer of Insmed but is included in this proxy statement as a named executive officer due to the compensation he received from Insmed in 2005.
(10) Mr. Tully returned to Insmed as Executive Vice President and Chief Financial Officer on February 20, 2006. He originally joined Insmed in August 2001 and held various positions, including Chief Financial Officer prior to his departure in August 2005.
(11) Mr. Young joined Insmed on April 7, 2004 and was named an executive officer on May 5, 2004.

DIRECTOR COMPENSATION

Our non-employee directors receive an annual director s fee of $15,000 plus $2,000 and reimbursement of expenses for each meeting of the Board attended in person, $1,000 for each Compensation and Nominations and Governance Committee meeting attended in person, $1,500 for each Audit Committee attended in person and $500 for each meeting attended telephonically. In addition, each non-employee director receives an option to purchase 25,000 shares of Insmed common stock upon initial election to the Board and options to purchase 17,500 shares of Insmed common stock annually, which options vest one year from the date of grant if the director attends at least 75% of the Board meetings in the preceding fiscal year. Directors who are officers or employees of Insmed do not receive any additional compensation for their services as directors.

CHANGE IN CONTROL ARRANGEMENTS

We have entered into Change in Control Agreements with Dr. Allan, Mr. Gunn, Mr. Keuer, Dr. Sommer, Mr. Tully and Mr. Young, which entitle those named executive officers to receive additional benefits in the event of their termination following a change in control of Insmed. We believe that the existence of these potential benefits will benefit Insmed by discouraging turnover and causing such executives to be more able to respond to the possibility of a change in control without being influenced by the potential effect of a change in control on their job security.

For purposes of these agreements, the term change in control generally includes:

(a) the acquisition by another person of beneficial ownership of 40% or more of Insmed common stock;

(b) a proxy contest that results in the replacement of 50% or more of the members of Insmed s Board;

(c) a merger after which Insmed s stockholders own less than 60% of the surviving corporation s stock; or

(d) approval by Insmed s stockholders of a complete liquidation or dissolution of Insmed.

If, during the one-year period following a change in control, Insmed or its successor terminates the executive s employment other than for cause or the executive voluntarily terminates employment after the executive s compensation or duties are changed in any material respect from what they were immediately prior to the change in control, the executive shall receive a lump-sum cash payment equal to the sum of the executive s highest annual salary rate while an employee of Insmed plus a prorated maximum potential bonus. Dr. Allan will receive a lump sum cash payment equal to one and a half (1 $^{1}/2$) times the sum of his highest annual salary plus his pro-rated maximum bonus potential. In addition, Insmed shall continue to provide to the executive health, dental, long-term disability, life insurance, continuation of D&O insurance, and the other fringe benefits that the executive received prior to termination.

Under the agreements with the executives, all stock options held by the executive at the time of a change in control will remain exercisable for the term of the option period set forth in his option agreement(s) and any restricted stock held by the executive remains subject to the restrictions set forth in his restricted stock agreement. However, after a change in control all of the stock options held by Dr. Allan and Mr. Gunn will become exercisable and remain exercisable until the earlier to occur of (a) the end of the regular option term and (b) five years from the date of the Change of Control.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The following persons served on our Compensation Committee from the election on May 11, 2005 through December 31, 2005: Dr. Whitcomb (Chairman), Dr. Sharoky and Dr. Crooke. Neither Dr. Sharoky, Dr. Whitcomb nor Dr. Crooke is or has ever been an officer or employee of Insmed or any of our subsidiaries.

COMPENSATION COMMITTEE REPORT

This report of the Compensation Committee (the Committee) of the Board describes the objectives of Insmed s executive compensation program, the various components of the program, and explains the basis on which compensation determinations for the fiscal year ended December 31, 2005 were made by the Committee.

Overall Objectives of Executive Compensation Programs

The Committee s guiding philosophy is to establish executive compensation policies that are linked to the sustained creation of shareholder value. The following objectives serve as the guiding principles for all compensation decisions:

- provide a competitive total compensation opportunity that will enable Insmed to attract, retain and motivate highly qualified executives;

- align compensation opportunities with shareholder interests by making the executive compensation program highly sensitive to Insmed s performance, which is defined in terms of milestones associated with achieving long-term profitability and creating shareholder value; and

- provide a strong emphasis on equity-based compensation and equity ownership, creating a direct link between shareholder and management interests.

Compensation Program Components

The Committee believes that the total compensation opportunity available to members of management should consist of base salary, annual bonuses and stock options, with each component geared to the median of the market for all positions in the aggregate. Individuals may be compensated above or below the median of the market based on Insmed s performance and on considerations of individual performance and experience. The Committee considers all elements of the program when setting compensation levels.

The Committee periodically meets individually with members of management in order to assess progress toward meeting objectives set by the Board for both annual and long-term compensation.

The Committee utilizes compensation surveys to aid in the determination of competitive levels of executive pay. The surveys include companies that are larger and smaller than Insmed. Some surveys are limited to companies in the biotechnology business. The Committee also utilizes executive compensation information compiled from the proxy statements of other biotechnology companies. References to the market in this report refer to these survey and proxy data.

Base Salaries

Base salaries are determined in accordance with the responsibilities of each officer, median market data for the position and the officer s performance achieving corporate goals. The Committee considers each of these factors but does not assign a specific value to each factor. Furthermore, a subjective element is acknowledged in evaluating the officer s overall span of responsibility and control. Total compensation for Insmed s officers is believed to be generally in line with the median of the market as described above.

Annual Bonuses

The Committee reviews annual bonuses in conjunction with senior management and has the authority to grant annual bonuses. The bonuses, which at present have guidelines of up to 50% of the CEO s annual salary and up to 35% of individual officers annual salaries, can be increased beyond these guideline levels at the Committees discretion, should the circumstances warrant. Awards are based on an evaluation of the performance, level of responsibility and leadership of the individual in relation to overall corporate results. For the fiscal year ended December 31, 2005, annual bonuses of 10% to 50% of base salaries were awarded to officers based on the attainment by individuals of specific objectives necessary for Insmed to achieve its business plan.

Stock Options and Restricted Awards

The Committee believes strongly that equity based awards are an integral part of total compensation for officers and certain key managers with significant responsibility for Insmed s long-term results. Stock options that are tied to corporate performance provide an effective means of delivering incentive compensation and also foster stock ownership on the part of management.

The Stock Incentive Plan:

- authorizes the granting of stock options, SARs, performance shares, restricted stock and other incentive awards, all of which may be made subject to the attainment of performance goals established by the Committee;
- provides for the enumeration of the business criteria on which an individual s performance goals are to be based; and
- establishes the maximum share grants or awards (or, in the case of incentive awards, the maximum compensation) that can be paid to a Stock Incentive Plan participant.

In the fiscal year ended December 31, 2005, incentive awards of stock options and performance shares were made in accordance with the performance-based focus of the Stock Incentive Plan.

Discussion of 2005 Compensation for the Chief Executive Officer

Dr. Geoffrey Allan s base salary as Chief Executive Officer was not increased in the fiscal year ended December 31, 2005, and remained at $395,200, the same level as fiscal years ended December 31, 2004, 2003 and 2002. The Committee intends base salary to provide Dr. Allan with a level of stability and certainty each year and intends that this particular component of compensation not be affected to any significant degree by company performance factors. The remaining components of Dr. Allan s compensation, however, are largely dependent on Dr. Allan s performance in relation to overall corporate results as set forth above in the discussion of the annual bonuses. The Committee awarded Dr. Allan a bonus for 2005 of $197,600 in recognition of the leadership that Dr. Allan has shown in managing the business of the company, raising equity and focusing on maximizing long-term value for our shareholders.

Deductibility of Compensation

The Committee has carefully considered Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides certain criteria for the tax deductibility of compensation in excess of $1 million paid to our executive officers. The Committee believes it is in Insmed s best interests and that of its shareholders to comply with the requirements of Section 162(m), but the Committee intends to preserve the flexibility to reward executives consistent with Insmed s pay philosophy for each compensation element. The Committee intends that grants of options, awards of performance shares, restricted stock and other incentive awards under the Stock Incentive Plan comply with the requirements of Section 162(m).

THE COMPENSATION COMMITTEE

Randall W. Whitcomb, M.D., Chairman

Graham K. Crooke, MB.BS

Melvin Sharoky, M.D.

March 24, 2006

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PERFORMANCE GRAPH

The following graph compares cumulative returns for Insmed, the Nasdaq Market Index and the Nasdaq Pharmaceutical Index since December 29, 2000. The comparison assumes $100 was invested on December 29, 2000 and dividends were reinvested.

Date	Insmed	NASDAQ Market Index	NASDAQ Pharmaceutical Index
December 29, 2000	$ 100.00	$ 100.00	$ 100.00
June 29, 2001	259.15	88.36	92.69
December 31, 2001	110.12	79.98	84.93
June 28, 2002	40.36	60.80	52.82
December 31, 2002	12.94	55.69	52.23
June 30, 2003	77.54	67.80	73.50
December 31, 2003	85.62	83.90	78.77
June 30, 2004	64.57	86.19	94.39
December 31, 2004	63.39	91.96	98.35
June 30, 2005	28.25	87.65	90.84
December 30, 2005	56.79	94.16	109.10

PROPOSAL NO. 2

DESIGNATION OF AUDITORS

The Audit Committee has designated Ernst & Young LLP, certified public accountants, as our independent auditors for the fiscal year ending December 31, 2006, subject to shareholder ratification. A representative of Ernst & Young LLP is expected to be present at the annual meeting and will have an opportunity to make a statement and respond to appropriate questions.

Ernst & Young LLP s principal function is to audit the consolidated financial statements of Insmed and our subsidiaries and, in connection with that audit, to review certain related filings with the Securities and Exchange Commission and to conduct limited reviews of the consolidated financial statements included in each of our quarterly reports. The aggregate fees billed for each of the last two fiscal years for professional services rendered by Ernst & Young LLP, as well as information relating to the Audit Committee s pre-approval policies and procedures, are detailed in the Audit Committee Report, which is included in this Proxy Statement.

Vote Not Required for Approval

Shareholder ratification of our independent auditors is not required under Virginia law, under our Articles of Incorporation, as amended, or our Amended and Restated Bylaws. In the event that a majority of the votes cast are against the ratification of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006, the Audit Committee will consider the vote and the reasons therefore in future decisions on the selection of our independent auditors.

Recommendation

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE DESIGNATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS.

PROPOSALS FOR 2007 ANNUAL MEETING

The regulations of the Securities and Exchange Commission require any shareholder wishing to make a proposal to be acted upon at the 2007 Annual Meeting of Shareholders to present the proposal to Insmed at our principal office in Glen Allen, Virginia, no later than December 8, 2006 or, if the date of the 2007 Annual Meeting is more than 30 days from May 10, 2007 (the anniversary of this year s annual meeting), then the deadline is a reasonable time before we begin to print and mail our proxy materials for the 2007 Annual Meeting. We will consider written proposals received by that date for inclusion in our proxy statement in accordance with regulations governing the solicitation of proxies.

In addition to the requirements of the Securities and Exchange Commission, a shareholder must meet to have a proposal included in our proxy statement, our Bylaws contain certain requirements that a shareholder must meet to nominate one or more persons for election as directors at an annual meeting or to make any other proposal to be acted upon at an annual meeting.

Article I, Section 10 of our Bylaws allows any shareholder entitled to vote in the election of directors generally to nominate one or more persons for election as directors at an annual meeting only if written notice of such shareholder s intent to make such nomination or nominations has been given, either by personal delivery or by United States registered or certified mail, postage prepaid, to our Corporate Secretary not later than 120 days nor more than 150 days before the anniversary of the date of the first mailing of our proxy statement for the immediately preceding year s annual meeting. Because this proxy statement was first mailed to our shareholders on April 7, 2006, our Corporate Secretary must receive written notice of a shareholder s intent to make such nomination or nominations at the 2007 Annual Meeting of Shareholders not later than the close of business on December 8, 2006 and not earlier than the close of business on November 8, 2006. Each such notice must set forth:

- the name and address of the shareholder who intends to make the nomination and any other person on whose behalf the nomination is being made, and of the person or persons to be nominated,
- the class and number of shares of Insmed stock that are owned by the shareholder and any other person on whose behalf the nomination is being made,
- a representation that the shareholder is a holder of record of shares of Insmed entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice,
- a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, and
- such other information regarding each nominee proposed by such shareholder as would be required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required to be disclosed, pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated or intended to be nominated by the Board, and shall include a consent signed by each such nominee to being named in the Proxy Statement as a nominee and to serve as a director of Insmed if so elected.

Article I, Section 9 of our Bylaws requires any shareholder wishing to make any other proposal to be acted on at an annual meeting to give written notice, either by personal delivery or by United States registered or certified mail, postage prepaid, to our Corporate Secretary no later than 120 days nor more than 150 days before the anniversary of the date of the first mailing of our proxy statement for the immediately preceding year s annual meeting. Because this proxy statement was first mailed to our shareholders on April 7, 2006, our Corporate Secretary must receive written notice of a shareholder s proposal to be acted upon at the 2007 Annual Meeting of Shareholders not later than the close of business on December 8, 2006 and not earlier than the close of business on November 8, 2006. Each such notice must set forth as to each matter the shareholder proposes to bring before the annual meeting:

- a brief description of the business desired to be brought before the annual meeting, including the complete text of any resolutions to be presented at the annual meeting with respect to such business, and the reasons for conducting such business at the annual meeting,
- the name and address of record of the shareholder proposing such business and any other person on whose behalf the proposal is being made,
- the class and number of shares of Insmed stock that are beneficially owned by the shareholder and any other person on whose behalf the proposal is made,
- a representation that the shareholder is a holder of record of shares of Insmed entitled to vote at such annual meeting and intends to appear in person or by proxy at the annual meeting to propose such business, and
- any material interest of the shareholder, and any other person on whose behalf the proposal is made, in such business.

If a shareholder wishes to make a proposal to be acted upon at the 2007 Annual Meeting of Shareholders that has not been included in the proxy statement and such proposal is made at the 2007 Annual Meeting, the management proxies will be allowed to use their discretionary voting authority to vote on the proposal unless notice of the proposal has been received by Insmed no later than December 8, 2006 or, if the date of the

2007 Annual Meeting is more than 30 days from May 10, 2007 (the anniversary of this year s annual meeting), then the deadline is a reasonable time before we begin to mail our proxy materials for the 2007 Annual Meeting.

Our Bylaws are available on our website at *www.insmed.com*. We will furnish a copy of our Bylaws without charge to any shareholder desiring a copy upon written request to Mr. W. McIlwaine Thompson, Corporate Secretary, Insmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia 23060. Our Bylaws are also available at the Securities and Exchange Commission s website (*www.sec.gov*) as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the period ended March 31, 2004 and filed on May 10, 2004.

ANNUAL REPORT ON FORM 10-K

We will provide without charge to each person to whom this Proxy Statement has been delivered, on the written request of any such person, a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, including the financial statements and financial statement schedules. Requests should be directed to Insmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia 23060, Attention: Corporate Secretary. A list of exhibits to the Form 10-K, showing the cost of each, will be delivered with the copy of the Form 10-K. Any of the exhibits will be provided upon payment of the charge noted on the list.

SEPARATE COPIES FOR BENEFICIAL HOLDERS

Institutions that hold shares in street name for two or more beneficial owners with the same address are permitted to deliver a single proxy statement and annual report to that address. Any such beneficial owner can request a separate copy of this Proxy Statement or the Annual Report on Form 10-K by contacting our Corporate Secretary as described above.

OTHER MATTERS

The Board is not aware of any matters to be presented for action at the meeting other than as set forth herein. However, if any other matters properly come before the meeting, or any adjournment thereof, the person or persons voting the proxies will vote them in accordance with their best judgment.

By Order of the Board of Directors

W. McIlwaine Thompson, Jr., *Corporate Secretary*

April 7, 2006

INSMED INCORPORATED

Glen Allen, Virginia

PROXY FOR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 10, 2006

The undersigned hereby appoints Geoffrey Allan, Ph.D. and W. McIlwaine Thompson, Jr., or either of them, with full power of substitution in each, proxies (and if the undersigned is a proxy, substitute proxies) to vote all shares of common stock of Insmed Incorporated that the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held May 10, 2006, and at any and all adjournments or postponements thereof. In their discretion, the Proxies are authorized to vote upon such other business and matters incident to the conduct of the meeting as may properly come before the meeting.

This Proxy is solicited on behalf of the Board of Directors. This Proxy, when properly executed, will be voted in the manner directed in this Proxy by the undersigned shareholder. If no direction is made, this Proxy will be voted for Proposals 1 and 2.

1. Election of directors:

¨ **FOR ALL** ¨ **WITHHOLD ALL** ¨ **FOR ALL EXCEPT**

Nominees: Geoffrey Allan, Ph.D.
Melvin Sharoky, M.D.
Randall W. Whitcomb, M.D.

Instruction: To withhold authority to vote for any such nominee(s), write the name(s) of the nominee(s) in the space provided below.

2. Ratification of the selection of Ernst & Young LLP as the independent auditors for Insmed for the fiscal year ending December 31, 2006:

¨ **FOR** ¨ **AGAINST** ¨ **ABSTAIN**

Dated: ______________________________, 2006

Print Name: ______________________________

Signature: ________________________________

Please print and sign your name exactly as it appears on the stock certificate. Only one of several joint owners or co-owners need sign. Fiduciaries should give full title.

PLEASE COMPLETE, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.