

SMITHFIELD FOODS INC
Form 10-Q
December 09, 2011

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 October 30, 2011

COMMISSION FILE NUMBER 1-15321

SMITHFIELD FOODS, INC.

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

Virginia
(State of Incorporation)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

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

At December 5, 2011, 160,955,829 shares of the registrant's Common Stock (\$.50 par value per share) were outstanding.

SMITHFIELD FOODS, INC.
TABLE OF CONTENTS

| | PAGE |
|---|-----------|
| PART I-FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements</u> | <u>3</u> |
| <u>Consolidated Condensed Statements of Income—Three and Six Months Ended October 30, 2011 and October 31, 2010</u> | <u>3</u> |
| <u>Consolidated Condensed Balance Sheets—October 30, 2011 and May 1, 2011</u> | <u>4</u> |
| <u>Consolidated Condensed Statements of Cash Flows—Six Months Ended October 30, 2011 and October 31, 2010</u> | <u>5</u> |
| <u>Notes to Consolidated Condensed Financial Statements</u> | <u>6</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>20</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>38</u> |
| Item 4. <u>Controls and Procedures</u> | <u>38</u> |
| PART II-OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | <u>39</u> |
| Item 1A. <u>Risk Factors</u> | <u>39</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>40</u> |
| Item 3. <u>Defaults Upon Senior Securities</u> | <u>40</u> |
| Item 4. <u>(Removed and Reserved)</u> | <u>40</u> |
| Item 5. <u>Other Information</u> | <u>40</u> |
| Item 6. <u>Exhibits</u> | <u>40</u> |
| <u>SIGNATURES</u> | <u>41</u> |

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMITHFIELD FOODS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in millions, except per share data)

| | Three Months Ended | | Six Months Ended | |
|--|------------------------------------|---------------------|------------------------------------|---------------------|
| | October 30, 2011 (unaudited) | October 31, 2010 | October 30, 2011 (unaudited) | October 31, 2010 |
| Sales | \$3,312.6 | \$2,998.8 | \$6,406.8 | \$5,900.1 |
| Cost of sales | 2,893.0 | 2,566.1 | 5,580.1 | 5,099.7 |
| Gross profit | 419.6 | 432.7 | 826.7 | 800.4 |
| Selling, general and administrative expenses | 200.8 | 172.8 | 439.5 | 373.8 |
| Equity in income of affiliates | (5.9 |) (18.2 |) (10.7 |) (29.1 |
| Operating profit | 224.7 | 278.1 | 397.9 | 455.7 |
| Interest expense | 44.2 | 65.5 | 92.3 | 134.1 |
| Loss on debt extinguishment | 6.4 | 7.3 | 7.6 | 7.3 |
| Income before income taxes | 174.1 | 205.3 | 298.0 | 314.3 |
| Income tax expense | 53.4 | 61.6 | 95.2 | 94.3 |
| Net income | \$120.7 | \$143.7 | \$202.8 | \$220.0 |
| Net income per share: | | | | |
| Basic | \$.74 | \$.87 | \$1.24 | \$1.33 |
| Diluted | \$.74 | \$.86 | \$1.23 | \$1.32 |
| Weighted average shares outstanding: | | | | |
| Basic | 162.4 | 166.0 | 164.1 | 166.0 |
| Effect of dilutive shares | 1.1 | 1.1 | 1.1 | 1.2 |
| Diluted | 163.5 | 167.1 | 165.2 | 167.2 |

See Notes to Consolidated Condensed Financial Statements

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

| | October 30, 2011 (unaudited) | May 1, 2011 |
|--|------------------------------------|----------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$136.4 | \$374.7 |
| Accounts receivable, net | 724.8 | 709.6 |
| Inventories | 2,262.7 | 2,019.9 |
| Prepaid expenses and other current assets | 134.0 | 233.7 |
| Total current assets | 3,257.9 | 3,337.9 |
| Property, plant and equipment, net | 2,270.7 | 2,309.1 |
| Goodwill | 773.0 | 793.3 |
| Investments | 546.5 | 582.5 |
| Intangible assets, net | 384.0 | 386.6 |
| Other assets | 166.3 | 202.4 |
| Total assets | \$7,398.4 | \$7,611.8 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital lease obligations | \$73.7 | \$143.7 |
| Accounts payable | 470.7 | 434.4 |
| Accrued expenses and other current liabilities | 622.0 | 649.8 |
| Total current liabilities | 1,166.4 | 1,227.9 |
| Long-term debt and capital lease obligations | 2,089.3 | 1,978.6 |
| Other liabilities | 665.5 | 856.7 |
| Redeemable noncontrolling interests | 2.0 | 2.0 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' equity: | | |
| Preferred stock, \$1.00 par value, 1,000,000 authorized shares | — | — |
| Common stock, \$.50 par value, 500,000,000 authorized shares; 160,950,495 and 166,080,231 issued and outstanding | 80.5 | 83.0 |
| Additional paid-in capital | 1,586.8 | 1,638.7 |
| Stock held in trust | (67.9 |) (66.7 |
| Retained earnings | 2,209.0 | 2,059.7 |
| Accumulated other comprehensive loss | (333.9 |) (169.2 |
| Total shareholders' equity | 3,474.5 | 3,545.5 |
| Noncontrolling interests | 0.7 | 1.1 |
| Total equity | 3,475.2 | 3,546.6 |
| Total liabilities and equity | \$7,398.4 | \$7,611.8 |

See Notes to Consolidated Condensed Financial Statements

4

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

| | Six Months Ended | |
|---|------------------------------------|---------------------|
| | October 30, 2011 (unaudited) | October 31, 2010 |
| Cash flows from operating activities: | | |
| Net income | \$202.8 | \$220.0 |
| Adjustments to reconcile net cash flows from operating activities: | | |
| Depreciation and amortization | 122.3 | 116.9 |
| Gain on sale of property, plant and equipment, including breeding stock | (25.3) | (17.3) |
| Equity in income of affiliates | (10.7) | (29.1) |
| Pension expense | 28.6 | 41.0 |
| Pension contributions | (132.1) | (101.1) |
| Changes in operating assets and liabilities and other, net | (251.9) | 7.4 |
| Net cash flows (used by) from operating activities | (66.3) | 237.8 |
| Cash flows from investing activities: | | |
| Capital expenditures | (139.4) | (68.3) |
| Net disposals of breeding stock | 9.9 | 19.9 |
| Other | 4.8 | 10.9 |
| Net cash flows used by investing activities | (124.7) | (37.5) |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt and capital lease obligations | (124.1) | (230.7) |
| Net proceeds from revolving credit facilities and notes payable | 176.0 | 35.3 |
| Repurchase of common stock | (110.6) | — |
| Change in cash collateral | 23.9 | (27.7) |
| Debt issuance costs and other | (10.9) | 0.3 |
| Net cash flows used by financing activities | (45.7) | (222.8) |
| Effect of foreign exchange rate changes on cash | (1.6) | 0.5 |
| Net change in cash and cash equivalents | (238.3) | (22.0) |
| Cash and cash equivalents at beginning of period | 374.7 | 451.2 |
| Cash and cash equivalents at end of period | \$136.4 | \$429.2 |

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. You should read these statements in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. The information reflects all normal recurring adjustments which we believe are necessary to present fairly the financial position and results of operations for all periods included.

Smithfield Foods, Inc., together with its subsidiaries (the "Company," "we," "us" or "our"), is the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous interest in Butterball, LLC (Butterball), which were sold in December 2010 (fiscal 2011). The three months ended October 30, 2011 correspond to the second quarter of fiscal 2012 and the three months ended October 31, 2010 correspond to the second quarter of fiscal 2011. Certain prior year amounts have been reclassified to conform to current year presentation.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (the FASB) issued new accounting guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines, based on its qualitative assessment, that the fair value of a reporting unit more likely than not exceeds its carrying amount, the two-step goodwill impairment test is not required. The new guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted.

NOTE 2: DISPOSAL OF LONG-LIVED ASSETS

Portsmouth, Virginia Plant

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

As a result of this decision, we performed an impairment analysis of the related assets at the Portsmouth facility in the second quarter of fiscal 2012 and determined that the net cash flows expected to be generated over the anticipated remaining useful life of the plant are sufficient to recover its book value. As such, no impairment exists. However, we have revised depreciation estimates to reflect the use of the related assets at the Portsmouth facility over their shortened useful lives. As a result, we recognized accelerated depreciation charges of \$0.4 million in cost of sales in the second quarter of fiscal 2012. We expect to recognize accelerated depreciation charges totaling \$7.6 million over the next 18 months. Also, in connection with this decision, we wrote-down inventory by \$0.8 million in cost of sales and accrued \$0.6 million for employee severance in selling, general and administrative expenses in the second quarter of fiscal 2012. All of these charges are being reflected in the Pork segment.

Missouri Hog Farms

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

Based on the favorable hog raising performance experienced with these third party contract farmers and the amount of capital required to install "next generation" technology at our Missouri farms, we made the decision in the first quarter of fiscal 2012 to permanently idle certain of the assets on these farms. Depreciation estimates have been revised to reflect the shortened useful lives of the assets. As a result, we recognized accelerated depreciation charges of \$3.2 million and \$7.5 million in cost of sales for the three and six months ended October 30, 2011, respectively. We also expect to recognize accelerated depreciation charges of \$0.7 million in the third quarter of fiscal 2012. These charges are being reflected in the Hog Production segment.

NOTE 3: INVENTORIES

Inventories consist of the following:

| | October 30, 2011 | May 1, 2011 |
|--------------------------|---------------------|----------------|
| | (in millions) | |
| Livestock | \$1,007.2 | \$963.9 |
| Fresh and packaged meats | 1,013.3 | 854.1 |
| Grains | 125.1 | 89.8 |
| Manufacturing supplies | 64.6 | 60.0 |
| Other | 52.5 | 52.1 |
| Total inventories | \$2,262.7 | \$2,019.9 |

NOTE 4: DERIVATIVE FINANCIAL INSTRUMENTS

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn and soybean meal, which are actively traded on commodity exchanges. We hedge these commodities when we determine conditions are appropriate to mitigate price risk. While this hedging may limit our ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. We attempt to closely match the commodity contract terms with the hedged item. We also enter into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and foreign exchange forward contracts to hedge certain exposures to fluctuating foreign currency rates.

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

We do not offset the fair value of derivative instruments with cash collateral held with or received from the same counterparty under a master netting arrangement. As of October 30, 2011, prepaid expenses and other current assets included \$36.2 million representing cash on deposit with brokers to cover losses on our open derivative instruments. As of October 30, 2011, accrued expenses and other current liabilities included \$3.7 million representing cash deposits received from brokers to cover gains on our open derivative instruments. Changes in commodity prices could have a significant impact on cash deposit requirements under our broker and counterparty agreements. Additionally, certain of our derivative contracts contain credit risk related contingent features, which would require us to post additional cash collateral to cover net losses on open derivative instruments if our credit rating was downgraded. As of October 30, 2011, the net liability position of our open derivative instruments that are subject to credit risk related contingent features was not material.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties under financial instruments. Although our counterparties primarily consist of financial institutions that are investment grade, there is still a possibility that one or more of these companies could default. However, a majority of our financial instruments are exchange traded futures contracts held with brokers and counterparties with whom we maintain margin accounts that are settled on a daily basis, thereby limiting our credit exposure to non-exchange traded derivatives. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. As of October 30, 2011, we had credit exposure of \$22.2 million on non-exchange traded derivative contracts, excluding the effects of netting arrangements. As a result of netting arrangements, our credit exposure was reduced to \$12.6 million. No significant concentrations of credit risk existed as of October 30, 2011.

The size and mix of our derivative portfolio varies from time to time based upon our analysis of current and future market conditions. All grain contracts, livestock contracts and foreign exchange contracts are recorded in prepaid expenses and other current assets or accrued expenses and other current liabilities within the consolidated condensed balance sheets, as appropriate. Interest rate contracts are recorded in other liabilities.

The following table presents the fair values of our open derivative financial instruments in the consolidated condensed balance sheets on a gross basis.

| | Assets | | Liabilities | |
|--|---------------------|----------------|---------------------|----------------|
| | October 30, 2011 | May 1, 2011 | October 30, 2011 | May 1, 2011 |
| | (in millions) | | (in millions) | |
| Derivatives using the "hedge accounting" method: | | | | |
| Grain contracts | \$13.6 | \$46.2 | \$5.7 | \$4.8 |
| Livestock contracts | 5.3 | 22.9 | 4.1 | 29.5 |
| Interest rate contracts | — | — | — | 2.3 |
| Foreign exchange contracts | — | 0.2 | 3.5 | — |
| Total | 18.9 | 69.3 | 13.3 | 36.6 |
| Derivatives using the "mark-to-market" method: | | | | |
| Grain contracts | 18.3 | 38.3 | 4.5 | 4.7 |
| Livestock contracts | 3.3 | 1.7 | 2.9 | 8.0 |
| Energy contracts | 0.5 | 1.0 | 2.5 | 0.1 |
| Foreign exchange contracts | 5.1 | 0.3 | 0.9 | 1.9 |
| Total | 27.2 | 41.3 | 10.8 | 14.7 |
| Total fair value of derivative instruments | \$46.1 | \$110.6 | \$24.1 | \$51.3 |
| Hedge Accounting Method | | | | |
| Cash Flow Hedges | | | | |

We enter into derivative instruments, such as futures, swaps and options contracts, to manage our exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted sale of live hogs and fresh pork, and the forecasted purchase of corn and soybean meal. In addition, we enter into interest rate

swaps to manage our exposure to changes in interest rates associated with our variable interest rate debt, and we enter into foreign exchange contracts to manage our exposure to the variability in expected future cash flows attributable to changes in foreign exchange rates associated with

8

the forecasted purchase or sale of assets denominated in foreign currencies. As of October 30, 2011, we held derivative instruments to hedge anticipated transactions through April 2013.

When cash flow hedge accounting is applied, derivative gains or losses are recognized as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Derivative gains and losses, when reclassified into earnings, are recorded in cost of sales for grain contracts, sales for lean hog contracts, interest expense for interest rate contracts and selling, general and administrative expenses for foreign exchange contracts. Gains and losses on derivatives designed to hedge price risk associated with fresh pork sales are recorded in the Hog Production segment.

During the six months ended October 30, 2011, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|---------------------------------|-------------|-------------|--------------|
| Commodities: | | | |
| Corn | 26,705,000 | 42,375,000 | Bushels |
| Soybean meal | 223,700 | 667,700 | Tons |
| Lean hogs | 469,720,000 | 960,360,000 | Pounds |
| Interest rate | — | 200,000,000 | U.S. Dollars |
| Foreign currency ⁽¹⁾ | 23,496,793 | 48,046,395 | U.S. Dollars |

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

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

| | Gains (Losses) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | Gains (Losses) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion) | | Gains (Losses) Recognized in Earnings on Derivative (Ineffective Portion) | |
|----------------------------|--|---------------------|--|---------------------|--|---------------------|
| | Three Months Ended October 30, 2011 (in millions) | October 31, 2010 | Three Months Ended October 30, 2011 (in millions) | October 31, 2010 | Three Months Ended October 30, 2011 (in millions) | October 31, 2010 |
| Commodity contracts: | | | | | | |
| Grain contracts | \$(2.7) | \$77.4 | \$24.3 | \$1.3 | \$— | \$0.9 |
| Lean hog contracts | 21.2 | 36.6 | 6.8 | (9.2) | (1.0) | 0.4 |
| Interest rate contracts | — | (0.7) | (0.6) | (2.4) | — | — |
| Foreign exchange contracts | 4.2 | 1.7 | 0.2 | (0.8) | — | — |
| Total | \$22.7 | \$115.0 | \$30.7 | \$(11.1) | \$(1.0) | \$1.3 |
| | | | | | | |
| | Six Months Ended October 30, 2011 (in millions) | October 31, 2010 | Six Months Ended October 30, 2011 (in millions) | October 31, 2010 | Six Months Ended October 30, 2011 (in millions) | October 31, 2010 |
| Commodity contracts: | | | | | | |
| Grain contracts | \$(16.6) | \$92.2 | \$68.1 | \$(2.7) | \$(0.1) | \$0.7 |
| Lean hog contracts | 29.3 | 31.6 | 5.1 | (19.7) | (1.1) | 0.1 |
| Interest rate contracts | — | (1.2) | (2.4) | (3.5) | — | — |
| Foreign exchange contracts | 4.5 | (3.9) | 0.4 | (2.7) | — | — |
| Total | \$17.2 | \$118.7 | \$71.2 | \$(28.6) | \$(1.2) | \$0.8 |

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

9

During the first quarter of fiscal 2012, we discontinued cash flow hedge accounting on a number of grain contracts as it became probable that the original forecasted transactions would not transpire. As a result of this change, the table above for the six months ended October 30, 2011 includes gains of \$12.0 million on grain contracts de-designated from hedging relationships that were reclassified from accumulated other comprehensive loss into earnings in the first quarter of fiscal 2012.

As of October 30, 2011, there were deferred net gains of \$9.4 million, net of tax of \$7.1 million, in accumulated other comprehensive loss. We expect to reclassify \$11.8 million (\$7.2 million net of tax) of deferred net gains on closed commodity contracts into earnings within the next twelve months. We are unable to estimate the gains or losses to be reclassified into earnings within the next twelve months related to open contracts as their values are subject to change.

Fair Value Hedges

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

During the six months ended October 30, 2011, the range of notional volumes associated with open derivative instruments designated in fair value hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|--------------|-----------|-------------|---------|
| Commodities: | | | |
| Lean hogs | — | 221,680,000 | Pounds |
| Corn | 2,245,000 | 6,505,000 | Bushels |

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

| | Gains (Losses) Recognized in Earnings on Derivative Three Months Ended October 30, 2011 (in millions) | | Gains (Losses) Recognized in Earnings on Related Hedged Item Three Months Ended October 30, 2010 (in millions) | |
|---------------------|--|-------|---|---------|
| Commodity contracts | \$1.4 | \$0.7 | \$(1.4) | \$(6.2) |
| | Six Months Ended October 30, 2011 (in millions) | | Six Months Ended October 30, 2010 (in millions) | |
| Commodity contracts | \$11.1 | \$5.7 | \$(5.0) | \$(2.3) |

We recognized losses of \$1.2 million and gains of \$2.3 million for the three months ended October 30, 2011 and October 31, 2010, respectively, and gains of \$4.7 million and losses of \$19.8 million for the six months ended October 30, 2011 and October 31, 2010, respectively, on closed commodity derivative contracts as the underlying cash transactions affected earnings.

For fair value hedges of inventory, we elect to exclude from the assessment of effectiveness differences between the spot and futures prices. These differences are recorded directly into earnings as they occur. These differences resulted in losses of \$6.3 million for the three months ended October 31, 2010, and gains of \$5.7 million and \$2.4 million for the six months ended October 30, 2011 and October 31, 2010, respectively.

Mark-to-Market Method

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

During the six months ended October 30, 2011, the range of notional volumes associated with open derivative instruments using the “mark-to-market” method was as follows:

| | Minimum | Maximum | Metric |
|---------------------------------|------------|-------------|--------------|
| Commodities: | | | |
| Lean hogs | 4,640,000 | 334,320,000 | Pounds |
| Corn | 8,485,000 | 21,685,000 | Bushels |
| Soybean meal | — | 207,300 | Tons |
| Soybeans | 210,000 | 320,000 | Bushels |
| Wheat | — | 1,620,000 | Bushels |
| Live cattle | — | 120,000 | Pounds |
| Natural gas | 1,750,000 | 2,400,000 | Million BTU |
| Heating oil | — | 1,008,000 | Gallons |
| Foreign currency ⁽¹⁾ | 38,820,846 | 105,324,993 | U.S. Dollars |

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

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

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|-------------|------------------|-------------|
| | October 30, | October 31, | October 30, | October 31, |
| | 2011 | 2010 | 2011 | 2010 |
| | (in millions) | | (in millions) | |
| Commodity contracts | \$4.5 | \$27.2 | \$25.3 | \$63.4 |
| Foreign exchange contracts | (3.7) | (7.3) | (2.4) | (4.9) |
| Total | \$0.8 | \$19.9 | \$22.9 | \$58.5 |

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

NOTE 5: HOG PRODUCTION COST SAVINGS INITIATIVE

In the fourth quarter of fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative). The plan includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, termination of certain high cost, third party hog grower contracts and breeding stock sourcing contracts, as well as a number of other cost reduction activities. We expect the Cost Savings Initiative to be substantially complete by the end of fiscal 2013.

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

| | Accrued Balance May 1, 2011 (in millions) | 1st Quarter FY 2012 Expense | 2nd Quarter FY 2012 Expense | Payments | Accrued Balance October 30, 2011 | Cumulative Expense-to-Date | Estimated Remaining Expense |
|---|---|--------------------------------------|--------------------------------------|----------|---|-------------------------------|-----------------------------------|
| Cost savings activities: | | | | | | | |
| Contract terminations | \$0.8 | \$0.1 | \$0.3 | \$(0.8) | \$0.4 | \$ 22.6 | \$ 3.0 |
| Other associated costs | 1.6 | 0.9 | 0.9 | (3.4) | — | 8.7 | 0.7 |
| Total cost savings activities | \$2.4 | 1.0 | 1.2 | \$(4.2) | \$0.4 | 31.3 | 3.7 |
| Other charges: | | | | | | | |
| Accelerated depreciation | | 0.1 | — | | | 5.6 | — |
| Impairment | | — | — | | | 2.5 | — |
| Total other charges | | 0.1 | — | | | 8.1 | — |
| Total cost savings activities and other charges | | \$1.1 | \$1.2 | | | \$ 39.4 | \$ 3.7 |

NOTE 6: INVESTMENTS

Investments consist of the following:

| Equity Investment | % Owned | October 30, 2011 (in millions) | May 1, 2011 |
|----------------------------|---------|--------------------------------------|----------------|
| Campofrío Food Group (CFG) | 37% | \$419.1 | \$445.1 |
| Mexican joint ventures | 50% | 100.1 | 110.2 |
| Other | Various | 27.3 | 27.2 |
| Total investments | | \$546.5 | \$582.5 |

Equity in income of affiliates consists of the following:

| Equity Investment | Segment | Three Months Ended | | Six Months Ended | |
|-------------------------------------|---------------|--------------------------------------|---------------------|--------------------------------------|---------------------|
| | | October 30, 2011 (in millions) | October 31, 2010 | October 30, 2011 (in millions) | October 31, 2010 |
| CFG ⁽¹⁾ | International | \$(4.0) | \$(7.7) | \$(4.2) | \$(10.9) |
| Mexican joint ventures | International | (1.9) | (10.9) | (4.9) | (15.8) |
| All other equity method investments | Various | — | 0.4 | (1.6) | (2.4) |
| Equity in income of affiliates | | \$(5.9) | \$(18.2) | \$(10.7) | \$(29.1) |

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

As of October 30, 2011, we held 37,811,302 shares of CFG common stock. During the second quarter of fiscal 2012, CFG's stock price, like many global equity markets, experienced significant volatility and dropped as low as €5.28 per share and, for the first time in over twelve months, the carrying value of our investment in CFG exceeded the estimated fair value, indicating a potential impairment. The stock did, however, subsequently recover and was valued at €6.20 per share (approximately \$8.77 per share) on the last day of trading before the end of our second quarter of fiscal 2012. Also, the stock traded as high as €9.28 during the first half of fiscal 2012. Based on the stock price and foreign exchange rate as of October 30, 2011, the carrying value of our investment in CFG continued to exceed the market value of the underlying securities. As a result, we analyzed our investment in CFG for impairment and have determined that the fair value exceeded its carrying amount as of October 30, 2011. We estimated the fair value of our investment based on a variety of information including market multiples for comparable businesses, independent third party valuation reports, the market price of the underlying securities and a premium applied for our significant noncontrolling interest. The premium is based on the premise that we are the single largest shareholder of CFG, hold positions on CFG's Board of Directors and have significant influence over the strategic and operational decisions made by CFG. Based on our assessment, no impairment existed as of October 30, 2011.

NOTE 7: DEBT

2014 Notes

During the second quarter of fiscal 2012, we repurchased \$37.1 million of our 10% senior secured notes due July 2014 for \$41.9 million and recognized a loss of \$6.4 million on this debt extinguishment, including the write-off of related unamortized premiums and debt costs.

2011 Notes

During the first quarter of fiscal 2012, we redeemed the remaining \$77.8 million of our 7% senior unsecured notes due August 2011.

Working Capital Facilities

In June 2011 (fiscal 2012), we refinanced our asset-based revolving credit agreement totaling \$1.0 billion that supported short-term funding needs and letters of credit (the ABL Credit Facility) into two separate facilities: (1) an inventory-based revolving credit facility totaling \$925.0 million, with an option to expand up to \$1.2 billion (the Inventory Revolver), and (2) an accounts receivable securitization facility totaling \$275.0 million (the Securitization Facility). We may request working capital loans and letters of credit under both facilities. As a result of the refinancing, we recognized a loss on debt extinguishment of \$1.2 million in the first quarter of fiscal 2012 for the write-off of unamortized debt issuance costs associated with the ABL Credit Facility.

Availability under the Inventory Revolver is a function of the level of eligible inventories, subject to reserves. The Inventory Revolver matures in June 2016. However, it will mature on March 15, 2014 if the outstanding principal balance of our senior secured notes due July 2014 (2014 Notes), net of the amount of cash in excess of \$75 million, exceeds \$300 million on that date. The unused commitment fee and the interest rate spreads are a function of our leverage ratio (as defined in the Second Amended and Restated Credit Agreement). As of October 30, 2011, the unused commitment fee and interest rate were 0.375% and LIBOR plus 2.5%, respectively. The Inventory Revolver includes financial covenants. The ratio of our funded debt to capitalization (as defined in the Second Amended and Restated Credit Agreement) may not exceed 0.5 to 1.0, and our EBITDA to interest expense ratio (as defined in the Second Amended and Restated Credit Agreement) may not be less than 2.5 to 1.0. Obligations under the Inventory Revolver are guaranteed by our material U.S. subsidiaries and are secured by (i) a first priority lien on certain personal property, including cash and cash equivalents, deposit accounts, inventory, intellectual property, and certain equity interests (the Inventory Revolver Collateral), and (ii) a second priority lien on substantially all of the guarantors' real property, fixtures and equipment (the Non-Inventory Revolver Collateral). We incurred approximately \$9.7 million in transaction fees in connection with the Inventory Revolver, which are being amortized over its five-year life.

The term of the Securitization Facility is three years. As part of the arrangement, all accounts receivable of our major Pork segment subsidiaries are sold to a wholly-owned "bankruptcy remote" special purpose vehicle (SPV). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in our consolidated financial statements and therefore, the accounts receivable owned by it are included in our consolidated balance sheet.

However, the accounts receivable owned by the SPV are separate and distinct from our other assets and are not

available to our other creditors should we become insolvent. As of October 30, 2011, the SPV held \$494.9 million of accounts receivable and we had outstanding borrowings of \$150.0 million on the Securitization Facility.

The unused commitment fee and the interest rate spreads under the Securitization Facility are a function of our leverage ratio (as defined in the Second Amended and Restated Credit Agreement). As of October 30, 2011, the unused commitment fee and interest rate were 0.375% and the lender's cost of funds of 0.28% plus 1.25%, respectively. We incurred approximately \$1.3 million in transaction fees in connection with the Securitization Facility, which are being amortized over its three-year life.

Rabobank Term Loan

In June 2011 (fiscal 2012), we refinanced our \$200.0 million term loan (the Rabobank Term Loan). As a result, the maturity date changed from August 29, 2013 to June 9, 2016. We are obligated to repay \$25.0 million of the principal under the Rabobank Term Loan on June 9, 2015. We may elect to prepay the loan at any time, subject to the payment of certain prepayment fees in respect of any voluntary prepayment prior to June 9, 2013 and other customary breakage costs. Interest accrues, at our option, at LIBOR plus 3.75% or a base rate (the greater of Rabobank's prime rate and the Federal funds rate plus 0.5%) plus 2.75%. Obligations under the Rabobank Term Loan are guaranteed by our material U.S. subsidiaries and are secured by a first priority lien on the Non-Inventory Revolver Collateral and a second priority lien on the Inventory Revolver Collateral.

NOTE 8: GUARANTEES

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

We (together with our joint venture partners) guarantee financial obligations of certain unconsolidated joint ventures. The financial obligations are: up to \$87.0 million of debt borrowed by Agroindustrial del Noroeste (Norson), of which \$60.0 million was outstanding as of October 30, 2011, and up to \$3.5 million of liabilities with respect to currency swaps executed by another of our unconsolidated Mexican joint ventures, Granjas Carroll de Mexico. The covenants in the guarantee relating to Norson's debt incorporate our covenants under the Inventory Revolver. In addition, we continue to guarantee \$11.9 million of leases that were transferred to JBS S.A. in connection with the sale of Smithfield Beef, Inc. Some of these lease guarantees may be released in the near future and others may remain in place until the leases expire through February 2022.

NOTE 9: INCOME TAXES

Our effective tax rate was 31% and 30% for the three months ended October 30, 2011 and October 31, 2010, respectively, and 32% and 30% for the six months ended October 30, 2011 and October 31, 2010, respectively. The year-over-year variance in the effective tax rate resulted primarily from a change in the mix of domestic earnings, which have higher effective tax rates, and foreign earnings in fiscal 2012 compared to fiscal 2011. Reserves for uncertain tax positions of \$8.7 million and \$10.6 million were released and recorded in income tax expense for the three and six months ended October 30, 2011, respectively.

NOTE 10: PENSION PLANS

The components of net periodic pension cost consist of:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|-------------|------------------|-------------|
| | October 30, | October 31, | October 30, | October 31, |
| | 2011 | 2010 | 2011 | 2010 |
| | (in millions) | | (in millions) | |
| Service cost | \$9.4 | \$9.3 | \$18.7 | \$18.5 |
| Interest cost | 19.0 | 18.7 | 38.0 | 37.5 |
| Expected return on plan assets | (19.9) | (16.0) | (39.8) | (32.0) |
| Net amortization | 5.8 | 8.5 | 11.7 | 17.0 |
| Net periodic pension cost | \$14.3 | \$20.5 | \$28.6 | \$41.0 |

In June 2011 (fiscal 2012), we made a voluntary contribution of \$100.0 million to our qualified pension plans above the minimum amount required under government regulations. As a result of the voluntary contribution, we now expect

employer contributions to our qualified pension plans for fiscal 2012 to total approximately \$140.0 million.

14

NOTE 11: SHAREHOLDERS' EQUITY**Share Repurchase Program**

In June 2011 (fiscal 2012), we announced that our board of directors had approved a share repurchase program authorizing us to buy up to \$150.0 million of our common stock over the subsequent 24 month period (the Share Repurchase Program). This authorization replaced our previous share repurchase program.

In September 2011 (fiscal 2012), our board of directors approved an increase of \$100.0 million to the authorized amount under the Share Repurchase Program. Share repurchases may be made on the open market or in privately negotiated transactions. The number of shares repurchased, and the timing of any buybacks, depend on corporate cash balances, business and economic conditions and other factors, including investment opportunities. The Share Repurchase Program may be discontinued at any time.

During the six months ended October 30, 2011, we repurchased 5,515,377 shares of our common stock for \$110.6 million. The price of the repurchased shares has been allocated between common stock, additional paid-in capital and retained earnings in our consolidated condensed balance sheet in accordance with applicable accounting guidance. All share repurchases were funded from cash on hand.

Stock Options and Performance Share Units

During the six months ended October 30, 2011, we issued 18,436 shares of common stock upon the exercise of stock options and 367,205 shares of common stock for vested performance share units. We issued 84,499 shares of common stock upon exercise of stock options in fiscal 2011. In fiscal 2011, no performance share units vested; therefore, no shares were issued.

Comprehensive Income

The components of comprehensive income, net of tax, consist of:

| | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|-------------|------------------|-------------|
| | October 30, | October 31, | October 30, | October 31, |
| | 2011 | 2010 | 2011 | 2010 |
| | (in millions) | | (in millions) | |
| Net income | \$120.7 | \$143.7 | \$202.8 | \$220.0 |
| Hedge accounting | (10.5 |) 78.4 | (38.6 |) 89.7 |
| Foreign currency translation | (88.9 |) 74.8 | (133.2 |) 23.5 |
| Pension accounting | 3.6 | 5.2 | 7.1 | 10.5 |
| Total comprehensive income | \$24.9 | \$302.1 | \$38.1 | \$343.7 |

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy, our non-pension financial assets and liabilities that were measured at fair value on a recurring basis as of October 30, 2011 and May 1, 2011:

| | October 30, 2011 | | | | May 1, 2011 | | | |
|----------------------------|------------------|---------------|------------|---------------|---------------|---------------|------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | (in millions) | | | | (in millions) | | | |
| Assets | | | | | | | | |
| Derivatives: | | | | | | | | |
| Commodity contracts | \$12.0 | \$9.4 | \$— | \$21.4 | \$45.2 | \$34.6 | \$— | \$79.8 |
| Foreign exchange contracts | — | 5.1 | — | 5.1 | — | 0.5 | — | 0.5 |
| Insurance contracts | 45.0 | — | — | 45.0 | 49.4 | — | — | 49.4 |
| Total | \$57.0 | \$14.5 | \$— | \$71.5 | \$94.6 | \$35.1 | \$— | \$129.7 |
| Liabilities | | | | | | | | |
| Derivatives: | | | | | | | | |
| Commodity contracts | \$— | \$0.1 | \$— | \$0.1 | \$16.8 | \$— | \$— | \$16.8 |
| Interest rate contracts | — | — | — | — | — | 2.3 | — | 2.3 |
| Foreign exchange contracts | — | 4.4 | — | 4.4 | — | 1.9 | — | 1.9 |
| Total | \$— | \$4.5 | \$— | \$4.5 | \$16.8 | \$4.2 | \$— | \$21.0 |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. During the six months ended October 30, 2011, we had no assets or liabilities that were measured and recorded at fair value on a nonrecurring basis.

Other Financial Instruments

We determine the fair value of public debt using quoted market prices. We value all other debt using discounted cash flow techniques at estimated market prices for similar issues. The following table presents the fair value and carrying value of long-term debt, including the current portion of long-term debt as of October 30, 2011 and May 1, 2011.

| | October 30, 2011 | | May 1, 2011 | |
|---|------------------|----------------|-------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| | (in millions) | | | |
| Long-term debt, including current portion | \$2,461.4 | \$2,135.9 | \$2,418.0 | \$2,094.7 |

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

NOTE 13: CONTINGENCIES

Litigation

Other than the following matters, there have been no significant developments regarding litigation disclosed in Note 17 of our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, nor have any significant new matters arisen during the six months ended October 30, 2011.

Missouri Litigation

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011 and our Quarterly Report on Form 10-Q for the quarter ended July 31, 2011, in 2002, lawsuits based on the law of nuisance were filed against Premium Standard Farms (PSF), a wholly-owned subsidiary acquired on May 7, 2007, and Continental Grain Company (CGC) in the Circuit Court of Jackson County, Missouri entitled Steven Adwell, et al. v. PSF, et al. and Michael Adwell, et al. v. PSF, et al. On March 4, 2010, a jury trial involving 15 plaintiffs who live near Homan farm resulted in a jury verdict of compensatory damages for the plaintiffs for a total of \$11.1 million. The Court of Appeals of Missouri (Western District) denied defendants' appeal. On May 17, 2011, defendants filed an Application for Transfer of the appeal with the Missouri Supreme Court, which was denied on August 30, 2011 and PSF will pay the judgment plus interest. Pursuant to a pre-existing arrangement, PSF is obligated to indemnify CGC for certain liabilities, if any, resulting from the Missouri litigation, including the liabilities resulting from the foregoing verdict. The next Adwell trial, which will resolve the claims of up to 28 plaintiffs who live near Scott Colby farm, has been scheduled to commence on February 4, 2013, and discovery is ongoing.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, a lawsuit based on the law of nuisance was filed against the Company, PSF, CGC, and three other defendants in the Circuit Court of Daviess County, Missouri in April 2008 entitled Vernon Hanes, et al. v. PSF, et al. The case was transferred to DeKalb County, and the Court granted the Company's Motion for Summary Judgment dismissing it from the case on September 1, 2010. A jury trial for the remaining claims against the remaining defendants commenced on June 2, 2011. On June 22, 2011, the jury returned a verdict in favor of all remaining defendants as to all claims.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, in May 2004, a putative class action lawsuit entitled Daniel Herrold, et al. and Others Similarly Situated v. ContiGroup Companies, Inc., PSF, and PSF Group Holdings, Inc. was filed in the Circuit Court of Jackson County, Missouri. As a result of various venue transfer rulings and notices of dismissal, Herrold cases are pending in Chariton, Clark, DeKalb, Harrison, Jackson, and Linn counties. Trial for one of the Herrold cases pending in Harrison County, Engel, et al. v. PSF, et al., which involves the claims of four plaintiffs, has been scheduled to commence on October 9, 2012, and discovery is ongoing.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, in May 2007, a nuisance lawsuit entitled Jake Cooper, et al. v. Smithfield Foods, Inc., et al. was filed against numerous defendants in the Circuit Court of Vernon County, Missouri. Trial for the claims of the eleven plaintiffs remaining in the Cooper case has been scheduled to commence on May 1, 2013, and discovery is ongoing.

Our policy for establishing accruals and disclosures for contingent liabilities is contained in Note 1-Summary of Significant Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. We established an accrual with respect to the Missouri nuisance suits, including the cases described above, on the opening balance sheet for our acquisition of PSF in fiscal 2008 and we have periodically adjusted that accrual as developments have occurred. The accrual, as adjusted from time to time, represents our best estimate of the probable loss for these suits. In response to recent developments, including substantial progress made in global settlement negotiations, we increased the accrual by \$39.0 million in the first quarter of fiscal 2012 pursuant to applicable accounting guidance governing contingencies and subsequent events. These charges were recorded in selling, general and administrative expenses. Beginning in late June and continuing into the third quarter of fiscal 2012, we have made substantial progress in global settlement negotiations with counsel representing substantially all of the plaintiffs in the Missouri nuisance suits. As a result of this progress, we believe a global settlement with those plaintiffs is probable although we have not yet entered into a global settlement agreement and it is possible that we will be unsuccessful in doing so. If a settlement is reached, we intend to seek recovery under various insurance policies and believe that we could eventually recover a substantial portion of the settlement payment. Expenses and other liabilities associated with the Missouri nuisance suits will not affect our future profits or losses unless the accrual, as adjusted, proves to be insufficient or excessive. Although legal expenses incurred in our and our subsidiaries' defense of these claims and any payments made to plaintiffs will reduce our cash flows and our liquidity position, we do not expect such payments to have a material adverse impact on our overall financial position or liquidity.

Given the uncertainty of the outcome of the Missouri nuisance suits, including the uncertain outcome of ongoing global settlement negotiations, we cannot reasonably estimate the maximum potential exposure or the range of possible loss, if any, in excess of amounts accrued for these contingencies. However, it is possible that the total costs incurred related to such claims could exceed or be less than our current accrual. We will continue to review the amount of any necessary accruals and record changes in the period in which the determination is made that an adjustment is required.

NOTE 14: REPORTABLE SEGMENTS

We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries. The Hog Production segment consists of our hog production operations located in the U.S. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Corporate segment provides management and administrative services to support our other segments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous interest in Butterball, which were sold in December 2010 (fiscal 2011).

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------------------------|---------------------|--------------------------------------|---------------------|
| | October 30, 2011 (in millions) | October 31, 2010 | October 30, 2011 (in millions) | October 31, 2010 |
| Sales: | | | | |
| Segment sales— | | | | |
| Pork | \$2,774.8 | \$2,478.1 | \$5,372.1 | \$4,891.6 |
| Hog Production | 785.3 | 706.6 | 1,535.1 | 1,354.9 |
| International | 391.1 | 329.4 | 766.1 | 645.7 |
| Other | — | 31.4 | — | 61.8 |
| Total segment sales | 3,951.2 | 3,545.5 | 7,673.3 | 6,954.0 |
| Intersegment sales— | | | | |
| Pork | (6.3) | (6.3) | (15.7) | (13.8) |
| Hog Production | (624.7) | (530.5) | (1,236.3) | (1,020.6) |
| International | (7.6) | (9.9) | (14.5) | (19.5) |
| Total intersegment sales | (638.6) | (546.7) | (1,266.5) | (1,053.9) |
| Consolidated sales | \$3,312.6 | \$2,998.8 | \$6,406.8 | \$5,900.1 |
| Operating profit (loss): | | | | |
| Pork | \$171.2 | \$188.9 | \$307.9 | \$302.2 |
| Hog Production | 63.9 | 78.3 | 133.6 | 142.1 |
| International | 17.3 | 44.1 | 17.3 | 68.6 |
| Other | — | (3.0) | — | (1.8) |
| Corporate | (27.7) | (30.2) | (60.9) | (55.4) |
| Consolidated operating profit | \$224.7 | \$278.1 | \$397.9 | \$455.7 |

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

You should read the following information in conjunction with the unaudited consolidated condensed financial statements and the related notes in this Quarterly Report and the audited financial statements and the related notes as well as Management's Discussion and Analysis of Financial Condition and Results of Operation contained in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011.

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

EXECUTIVE OVERVIEW

We are the largest hog producer and pork processor in the world. We are also the leader in numerous packaged meats categories with popular brands including Farmland®, Smithfield®, Eckrich®, Armour® and John Morrell®. We are committed to providing good food in a responsible way and maintaining robust animal care, community involvement, employee safety, environmental, and food safety and quality programs.

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

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

We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous 49% interest in Butterball, LLC (Butterball), which were sold in December 2010 (fiscal 2011). The Pork segment consists mainly of our three wholly-owned U.S. fresh pork and packaged meats subsidiaries. The Hog Production segment consists of our hog production operations located in the U.S. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Corporate segment provides management and administrative services to support our other segments.

Second Quarter of Fiscal 2012 Summary

Net income was \$120.7 million, or \$.74 per diluted share, in the second quarter of fiscal 2012, compared to net income of \$143.7 million, or \$.86 per diluted share, in the same quarter last year. The following summarizes the results of each of our reportable segments and other changes impacting net income for the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011:

Pork segment operating profit decreased from \$188.9 million to \$171.2 million due to significantly higher raw material costs, including a 22% increase in the market price of live hogs.

Hog Production segment operating profit decreased by \$14.4 million due primarily to better results experienced in the prior year on derivative instruments that were marked to market through earnings.

International segment operating profit decreased by \$26.8 million as a result of significantly higher raw material costs in our meat processing and hog production operations, and softer demand.

Corporate segment operating loss decreased by \$2.5 million primarily due to lower variable compensation expenses. Interest expense decreased \$21.3 million, or 33%, as a result of our Project 100 initiative, which is described below.

Project 100

In the latter half of fiscal 2010, we developed a plan to reduce the level of debt on our balance sheet by \$1 billion and eliminate \$100 million of annual finance and interest expense from our statement of income (Project 100). This project was intended to improve our credit metrics, extend and smooth maturities of our various debt obligations and utilize idle cash on hand, while at the same time, maintaining ample liquidity. With the repayment of our remaining 7% senior unsecured notes due August 2011, Project 100 was complete. As a result, we have dramatically reduced our leverage and interest expense compared to fiscal 2010. Our net debt (long-term debt and capital lease obligations including current portion, net of cash) to total capitalization (net debt plus shareholders' equity) was 37% as of October 30, 2011. Our goal is to maintain a net debt to total capitalization ratio of approximately 40% or lower with a ceiling of 50%.

Share Repurchase Program

In June 2011 (fiscal 2012), we announced that our board of directors had approved a share repurchase program authorizing us to buy up to \$150.0 million of our common stock over the subsequent 24 month period (the Share Repurchase Program). In September 2011 (fiscal 2012), our board of directors approved an increase of \$100.0 million to the authorized amount of the Share Repurchase Program. Since the program was authorized, we have repurchased a total of 5,515,377 shares of our common stock for \$110.6 million.

GIPSA Rule

In our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, we reported on a proposed rule published in June 2010 from the U.S. Department of Agriculture's Grain Inspection, Packers and Stockyards Administration (GIPSA). In November 2011, an agricultural appropriations bill was enacted that, among other things, blocks GIPSA from moving forward with significant portions of the proposed rule. Consistent with the bill, the Company understands that GIPSA has made substantial changes to its proposed rule, but the final rule has not yet been issued. Based on our understanding of the expected changes, we do not believe that the revised rule will have a material adverse effect on our financial position or results of operations.

Outlook

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

Pork—Following fiscal 2011's record levels, strong fresh pork margins have continued into the first half of fiscal 2012, despite substantially higher domestic live hog market prices. As we enter the second half of the fiscal year, fundamentals in the fresh pork complex continue to support robust profitability. Healthy export volumes, particularly to Asia, have fueled fresh pork profitability through the first six months. We expect export demand to remain healthy, providing domestic price support and helping the overall fresh pork complex. Additionally, the segment should benefit from relatively high pork prices around the world. Accordingly, we remain optimistic about our fresh pork performance for the balance of fiscal 2012. That said, a meaningful deterioration in export demand could place significant downward pressure on margins.

Our packaged meats business maintained solid margins through the first six months of fiscal 2012, despite sharp increases in raw material costs. Although packaged meats volumes for the first six months of fiscal 2012 were relatively unchanged from last year, our sales mix continues to improve. We successfully grew our retail packaged meats volume in our twelve core brands by 5% in the first half of fiscal 2012, despite competing in categories that are flat industry-wide. We are targeting 3% volume growth in packaged meats for the full fiscal year with the support of increased marketing efforts. We expect our packaged meats business will continue to be solidly profitable for the remainder of fiscal 2012. We expect margins in this part of the business to average \$.10 to \$.15 per pound.

In summary, we continue to be optimistic about the Pork segment in the near term. We remain focused on leveraging our highly coordinated sales and marketing platform and consolidated brand portfolio to drive profitable top line

growth.

21

Hog Production—Balanced U.S. hog fundamentals and tighter global protein supplies continued to push live hog market prices higher in fiscal 2012. Domestic live hog prices were up 20% in the first six months of the fiscal year compared to the same period a year ago. The lean hog futures curve suggests healthy price levels for the balance of the year, with normal seasonal lows forecast for the third quarter of fiscal 2012. No significant herd expansion on the horizon should be supportive of prices going forward.

Our domestic raising costs crept up to \$64 per hundredweight in the second quarter of fiscal 2012 from \$63 per hundredweight in the first quarter of fiscal 2012, and up from \$54 per hundredweight a year ago. Previously, we expected raising costs to drift into the mid to upper \$60's. However, recent declines in feed grain prices are easing upward pressure and will likely result in small sequential decreases in raising costs as we move through the last half of fiscal 2012 and into fiscal 2013.

In summary, favorable grain hedges for the balance of fiscal 2012 should mitigate risks relative to our raising costs. And, we believe a comfortable balance domestically, between restrained supply of pork and other proteins, coupled with healthy exports, is supportive of hog prices and hog production results going forward. Consequently, while we do not expect meaningful operating profits in the third quarter of fiscal 2012, we do anticipate our full fiscal year hog production results will fall into the normalized range.

International—During the first quarter of fiscal 2012, our international operations were negatively impacted by recessionary conditions and higher raw material costs. In the second quarter, we saw modest, sequential improvements in all aspects of the business. Looking forward, we are cautiously optimistic the gains we saw in the second quarter can be sustained and our international operations will be modestly profitable for the balance of fiscal 2012.

On the meat processing side of our international business, we expect our Polish meat operations will make positive contributions in the last six months of fiscal 2012. We also expect continued profitability in our Mexican meat operations. In Romania, our meat processing operations continue to face a recessionary environment and weak domestic demand. However, provisional approval has been received to export pork products out of Romania to European Union member countries. As a result, we also expect improving results from our Romanian meat operations over the balance of the fiscal year.

On the live production side of the business, we expect to see improvements in live hog pricing as expected decreases in international pig inventories, particularly in Europe, tighten supplies in the second half of the fiscal year. As a consequence, our outlook for international hog production for the second half of the fiscal year reflects improved results compared to the first half.

Finally, we expect persistent recessionary conditions in Europe will continue to pressure Campofrío Food Group's (CFG) results for the remainder of fiscal 2012. In spite of this, we expect positive contributions from CFG.

RESULTS OF OPERATIONS

Significant Events Affecting Results of Operations

Portsmouth, Virginia Plant

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

As a result of this decision, we performed an impairment analysis of the related assets at the Portsmouth facility in the second quarter of fiscal 2012 and determined that the net cash flows expected to be generated over the anticipated remaining useful life of the plant are sufficient to recover its book value. As such, no impairment exists. However, we have revised depreciation estimates to reflect the use of the related assets at the Portsmouth facility over their shortened useful lives. As a result, we recognized accelerated depreciation charges of \$0.4 million in cost of sales in the second quarter of fiscal 2012. We expect to recognize accelerated depreciation charges totaling \$7.6 million over the next 18 months. Also, in connection with this decision, we wrote-down inventory by \$0.8 million in cost of sales and accrued \$0.6 million for employee severance in selling, general and administrative expenses in the second quarter of fiscal 2012. All of these charges are being reflected in the Pork segment.

Missouri Hog Farms

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

Based on the favorable hog raising performance experienced with these third party contract farmers and the amount of capital required to install "next generation" technology at our Missouri farms, we made the decision in the first quarter of fiscal 2012 to permanently idle certain of the assets on these farms. Depreciation estimates have been revised to reflect the shortened useful lives of the assets. As a result, we recognized accelerated depreciation charges of \$3.2 million and \$7.5 million in cost of sales for the three and six months ended October 30, 2011, respectively. We also expect to recognize accelerated depreciation charges of \$0.7 million in the third quarter of fiscal 2012. These charges are being reflected in the Hog Production segment.

Missouri Litigation

We established an accrual with respect to the Missouri nuisance suits, described in "Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011 and "Item 1. Legal Proceedings" herein, on the opening balance sheet for our acquisition of PSF in fiscal 2008 and we have periodically adjusted that accrual as developments have occurred. The accrual, as adjusted from time to time, represents our best estimate of the probable loss for these suits. In response to recent developments, including substantial progress made in global settlement negotiations, we increased the accrual by \$39.0 million in the first quarter of fiscal 2012 pursuant to applicable accounting guidance governing contingencies and subsequent events. These charges were recorded in selling, general and administrative expenses. Beginning in late June and continuing into the third quarter of fiscal 2012, we have made substantial progress in global settlement negotiations with counsel representing substantially all of the plaintiffs in the Missouri nuisance suits. As a result of this progress, we believe a global settlement with those plaintiffs is probable although we have not yet entered into a global settlement agreement and it is possible that we will be unsuccessful in doing so. If a settlement is reached, we intend to seek recovery under various insurance policies and believe that we could eventually recover a substantial portion of the settlement payment. Expenses and other liabilities associated with the Missouri nuisance suits will not affect our future profits or losses unless the accrual, as adjusted, proves to be insufficient or excessive. Although legal expenses incurred in our and our subsidiaries' defense of these claims and any payments made to plaintiffs will reduce our cash flows and our liquidity position, we do not expect such payments to have a material adverse impact on our overall financial position or liquidity.

Given the uncertainty of the outcome of the Missouri nuisance suits, including the uncertain outcome of ongoing global settlement negotiations, we cannot reasonably estimate the maximum potential exposure or the range of possible loss, if any, in excess of amounts accrued for these contingencies. However, it is possible that the total costs incurred related to such claims could exceed or be less than our current accrual. We will continue to review the amount of any necessary accruals and record changes in the period in which the determination is made that an adjustment is required.

Hog Production Cost Savings Initiative

In the fourth quarter of fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative). The plan includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, termination of certain high cost, third party hog grower contracts and breeding stock sourcing contracts, as well as a number of other cost reduction activities. We incurred charges related to these activities totaling \$1.2 million and \$2.3 million in the three and six months ended October 30, 2011, respectively. We incurred charges of \$15.3 million and \$15.8 million in the comparative prior year periods. We expect the Cost Savings Initiative to be substantially complete by the end of fiscal 2013.

Consolidated Results of Operations

The tables presented below compare our results of operations for the three and six months ended October 30, 2011 and October 31, 2010. As used in the tables, "NM" means "not meaningful."

Sales and cost of sales

| | Three Months Ended | | | Six Months Ended | | | |
|---------------------|--------------------------------------|---------------------|-------------|--------------------------------------|---------------------|-------------|--|
| | October 30, 2011 (in millions) | October 31, 2010 | % Change | October 30, 2011 (in millions) | October 31, 2010 | % Change | |
| Sales | \$3,312.6 | \$2,998.8 | 10 % | \$6,406.8 | \$5,900.1 | 9 % | |
| Cost of sales | 2,893.0 | 2,566.1 | 13 % | 5,580.1 | 5,099.7 | 9 % | |
| Gross profit | \$419.6 | \$432.7 | (3) % | \$826.7 | \$800.4 | 3 % | |
| Gross profit margin | 13 % | 14 % | | 13 % | 14 % | | |

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

Three Months:

The increase in consolidated sales was driven primarily by the Pork segment, where average unit selling prices increased 9% on significantly higher market prices for fresh pork and an improved sales mix in packaged meats. Additionally, volumes increased 3% spurred by strong export demand.

Raw material costs increased substantially in all segments of the business. Domestic live hog market prices increased to \$69 per hundredweight from \$56 per hundredweight in the prior year. Domestic raising costs increased from \$54 per hundredweight to \$64 per hundredweight as a result of higher feed prices.

Cost of sales in the prior year included \$15.3 million of charges associated with the Cost Savings Initiative compared to \$1.2 million in the current year. Cost of sales in the current year also includes \$3.6 million of accelerated depreciation charges related to PSF Missouri and Portsmouth assets.

Six Months:

The increase in consolidated sales was driven primarily by the Pork segment, where average unit selling prices increased 9% on significantly higher market prices for fresh pork and an improved sales mix in packaged meats.

Raw material costs increased substantially in all segments of the business. Domestic live hog market prices increased to \$68 per hundredweight from \$57 per hundredweight in the prior year. Domestic raising costs increased to \$64 per hundredweight from \$54 per hundredweight as a result of higher feed prices.

Cost of sales in the prior year included \$15.8 million of charges associated with the Cost Savings Initiative compared to \$2.3 million in the current year. Also, cost of sales in the current year includes \$7.9 million of accelerated depreciation charges related to PSF Missouri and Portsmouth assets.

Selling, general and administrative expenses (SG&A)

| | Three Months Ended | | | Six Months Ended | | |
|--|--------------------------------------|---------------------|-------------|--------------------------------------|---------------------|-------------|
| | October 30, 2011 (in millions) | October 31, 2010 | % Change | October 30, 2011 (in millions) | October 31, 2010 | % Change |
| Selling, general and administrative expenses | \$200.8 | \$172.8 | 16 % | \$439.5 | \$373.8 | 18 % |

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

Three Months:

The prior year includes a \$19.1 million net benefit related primarily to an insurance settlement associated with the Missouri litigation.

Marketing and advertising expenses increased \$8.5 million as we have increased our focus in this area in an effort to drive profitable top line growth.

Six Months:

In the first quarter of fiscal 2012, we recorded a charge of \$39.0 million related to the Missouri litigation, which is more fully described under "Significant Events Affecting Results of Operations."

The prior year includes a \$19.1 million net benefit related primarily to an insurance settlement associated with the Missouri litigation.

Marketing and advertising expenses increased \$7.7 million as we have increased our focus in this area in an effort to drive profitable top line growth.

Equity in income of affiliates

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------------------|--------------------------------------|---------------------|-------------|--------------------------------------|---------------------|-------------|
| | October 30, 2011 (in millions) | October 31, 2010 | % Change | October 30, 2011 (in millions) | October 31, 2010 | % Change |
| CFG | \$(4.0) | \$(7.7) | (48)% | \$(4.2) | \$(10.9) | (61)% |
| Mexican joint ventures | (1.9) | (10.9) | (83) | (4.9) | (15.8) | (69) |
| All other equity method investments | — | 0.4 | (100) | (1.6) | (2.4) | (33) |
| Equity in income of affiliates | \$(5.9) | \$(18.2) | (68)% | \$(10.7) | \$(29.1) | (63)% |

The following items explain the significant changes in equity in income of affiliates for the three and six month periods:

Equity income from CFG decreased as a result of higher raw material costs and weaker consumer demand.

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

Interest expense

| | Three Months Ended | | | Six Months Ended | | |
|------------------|--------------------------------------|---------------------|-------------|--------------------------------------|---------------------|-------------|
| | October 30, 2011 (in millions) | October 31, 2010 | % Change | October 30, 2011 (in millions) | October 31, 2010 | % Change |
| Interest expense | \$44.2 | \$65.5 | (33)% | \$92.3 | \$134.1 | (31)% |

Interest expense decreased as a result of our Project 100 initiative, under which we have redeemed more than \$1 billion of debt since the first quarter of fiscal 2011, including \$600 million of our 7% senior unsecured notes due August 2011, \$238 million of our 10% senior secured notes due July 2014 and \$190 million of our 7.75% senior unsecured notes due May 2013.

Loss on debt extinguishment

| | Three Months Ended | | | Six Months Ended | | |
|-----------------------------|--------------------------------------|---------------------|-------------|--------------------------------------|---------------------|-------------|
| | October 30, 2011 (in millions) | October 31, 2010 | % Change | October 30, 2011 (in millions) | October 31, 2010 | % Change |
| Loss on debt extinguishment | \$6.4 | \$7.3 | (12)% | \$7.6 | \$7.3 | 4 % |

Fiscal 2012

During the second quarter of fiscal 2012, we recognized a loss of \$6.4 million on the repurchase of \$37.1 million of our 10% senior secured notes due July 2014.

In June 2011 (fiscal 2012), we refinanced our asset-based revolving credit agreement totaling \$1.0 billion that supported short-term funding needs and letters of credit (the ABL Credit Facility) into two separate facilities: (1) an inventory-based revolving credit facility totaling \$925.0 million, with an option to expand up to \$1.2 billion (the Inventory Revolver), and (2) an accounts receivable securitization facility totaling \$275.0 million (the Securitization Facility). As a result of this refinancing, we recognized a loss on debt extinguishment of \$1.2 million in the first quarter of fiscal 2012 for the write-off of debt issuance costs associated with the ABL Credit Facility.

Fiscal 2011

During the second quarter of fiscal 2011, we recognized a loss of \$7.3 million on the repurchase of \$203.8 million of our 7% senior unsecured notes due August 2011.

Income tax expense

| | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------------------------|---------------------|--------------------------------------|---------------------|
| | October 30, 2011 (in millions) | October 31, 2010 | October 30, 2011 (in millions) | October 31, 2010 |
| Income tax expense | \$53.4 | \$61.6 | \$95.2 | \$94.3 |
| Effective tax rate | 31 | % 30 | % 32 | % 30 |

The year-over-year variance in the effective tax rate resulted primarily from a change in the mix of domestic earnings, which have higher effective tax rates, and foreign earnings in fiscal 2012 compared to fiscal 2011. Reserves for uncertain tax positions of \$8.7 million and \$10.6 million were released and recorded in income tax expense for the three and six months ended October 30, 2011, respectively.

Segment Results

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

Pork Segment

| | Three Months Ended | | | Six Months Ended | | | | |
|--|---|---------------------|-------------|---|---------------------|-------------|------|----|
| | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | | |
| Sales: | | | | | | | | |
| Fresh pork ⁽¹⁾ | \$1,292.4 | \$1,091.8 | 18 | % | \$2,546.6 | \$2,243.2 | 14 | % |
| Packaged meats | 1,482.4 | 1,386.3 | 7 | | 2,825.5 | 2,648.4 | 7 | |
| Total | \$2,774.8 | \$2,478.1 | 12 | % | \$5,372.1 | \$4,891.6 | 10 | % |
| Operating profit: ⁽²⁾ | | | | | | | | |
| Fresh pork ⁽¹⁾ | \$96.2 | \$113.4 | (15) |)% | \$131.6 | \$159.4 | (17) |)% |
| Packaged meats | 75.0 | 75.5 | (1) |) | 176.3 | 142.8 | 23 | |
| Total | \$171.2 | \$188.9 | (9) |)% | \$307.9 | \$302.2 | 2 | % |
| Sales volume: | | | | | | | | |
| Fresh pork | | | 3 | % | | | — | % |
| Packaged meats | | | 1 | % | | | — | % |
| Total | | | 3 | % | | | 1 | % |
| Average unit selling price: | | | | | | | | |
| Fresh pork | | | 15 | % | | | 13 | % |
| Packaged meats | | | 6 | % | | | 7 | % |
| Total | | | 9 | % | | | 9 | % |
| Hogs processed | | | | | | | | |
| | | | 2 | % | | | — | % |
| Average domestic live hog prices (per hundredweight) ⁽³⁾ | | | | | | | | |
| | \$68.64 | \$56.13 | 22 | % | \$68.35 | \$57.11 | 20 | % |

⁽¹⁾ Includes by-products and rendering.

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

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

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

Three Months:

Sales and operating profit were positively impacted by substantially higher average unit selling prices driven by favorable supply and demand fundamentals coupled with strong export sales, and an improved sales mix in packaged meats.

Fresh pork operating profit decreased to \$14 per head from \$16 per head in the prior year as a 22% increase in domestic live hog prices did not fully translate into higher market prices for fresh meat.

Packaged meats operating profit decreased to \$.11 per pound from \$.12 per pound in the prior year. Higher raw material costs put pressure on profit margins. However, an improvement in product mix of more high margin core brands and less low margin non-core and private label volume largely offset the impact of higher raw material costs.

Six Months:

Sales and operating profit were positively impacted by substantially higher average unit selling prices driven by favorable supply and demand fundamentals coupled with strong export sales, and an improved sales mix in packaged meats.

Fresh pork operating profit decreased to \$10 per head from \$12 per head in the prior year as a 20% increase in domestic live hog prices did not fully translate into higher market prices for fresh meat.

Packaged meats operating profit increased to \$.14 per pound from \$.11 per pound in the prior year as a result of strong pricing discipline and an improvement in product mix of more high margin core brands and less low margin non-core and private label volume, which more than offset the impact of higher raw material costs.

Hog Production Segment

| | Three Months Ended | | | Six Months Ended | | | |
|--|---|---------------------|-------------|---|---------------------|-------------|----|
| | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | |
| Sales | \$785.3 | \$706.6 | 11 | \$1,535.1 | \$1,354.9 | 13 | % |
| Operating profit | \$63.9 | \$78.3 | (18) | \$133.6 | \$142.1 | (6) |)% |
| Head sold | 3.98 | 4.30 | (7) | 7.78 | 8.13 | (4) |)% |
| Average domestic live hog prices (per hundredweight) ⁽¹⁾ | \$68.64 | \$56.13 | 22 | \$68.35 | \$57.11 | 20 | % |
| Domestic raising costs (per hundredweight) ⁽²⁾ | \$64.46 | \$53.53 | 20 | \$63.69 | \$54.00 | 18 | % |

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

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

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

Three Months:

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

Sales volume declined due to the sale of our Oklahoma hog farms in the third quarter of fiscal 2011 as well as temporary disruptions from the Cost Savings Initiative.

Domestic raising costs increased as a result of higher feed costs.

Fiscal 2012 operating profit includes gains of \$3.6 million compared to gains of \$22.6 million in fiscal 2011 from derivative contracts that are not reflected in the average live hog prices and raising costs presented in the table above; primarily lean hog derivative contracts and grain derivative contracts that are not designated in hedging relationships for accounting purposes.

Fiscal 2011 operating profit includes a \$19.1 million net benefit related primarily to an insurance settlement associated with the Missouri litigation.

Fiscal 2012 operating profit includes \$1.2 million in charges associated with the Cost Savings Initiative compared to \$15.3 million in fiscal 2011.

Fiscal 2012 operating profit includes accelerated depreciation charges of \$3.2 million due to our decision in the first quarter of fiscal 2012 to permanently idle certain Missouri farm assets.

Six Months:

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

Sales volume declined due to the sale of our Oklahoma hog farms in the third quarter of fiscal 2011 as well as temporary disruptions from the Cost Savings Initiative.

Domestic raising costs increased as a result of higher feed costs.

In the first quarter of fiscal 2012, we recorded a charge of \$39.0 million related to the Missouri litigation, which is more fully described under "Significant Events Affecting Results of Operations."

Fiscal 2012 operating profit includes gains of \$34.0 million compared to gains of \$27.2 million in fiscal 2011 from derivative contracts that are not reflected in the average live hog prices and raising costs presented in the table above; primarily lean hog derivative contracts and grain derivative contracts that are not designated in hedging relationships for accounting purposes.

Fiscal 2012 operating profit includes \$2.3 million in charges associated with the Cost Savings Initiative compared to \$15.8 million in fiscal 2011.

Fiscal 2012 operating profit includes accelerated depreciation charges of \$7.5 million due to our decision in the first quarter of fiscal 2012 to permanently idle certain Missouri farm assets.

International Segment

| | Three Months Ended | | | Six Months Ended | | | |
|---|---|---------------------|-------------|---|---------------------|----------|--|
| | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | October 30, 2011 (in millions, unless indicated otherwise) | October 31, 2010 | % Change | |
| Sales: | | | | | | | |
| Poland | \$303.1 | \$254.4 | 19 % | \$595.2 | \$496.2 | 20 % | |
| Romania | 65.5 | 51.4 | 27 | 123.1 | 98.0 | 26 | |
| Other | 22.5 | 23.6 | (5) | 47.8 | 51.5 | (7) | |
| Total | \$391.1 | \$329.4 | 19 % | \$766.1 | \$645.7 | 19 % | |
| Operating profit (loss): | | | | | | | |
| Poland | \$12.2 | \$21.9 | (44)% | \$14.8 | \$39.3 | (62)% | |
| Romania | (0.1) | 5.6 | (102) | (4.7) | 5.4 | (187) | |
| Other ⁽¹⁾ | 5.2 | 16.6 | (69) | 7.2 | 23.9 | (70) | |
| Total | \$17.3 | \$44.1 | (61)% | \$17.3 | \$68.6 | (75)% | |
| Poland: | | | | | | | |
| Sales volume ⁽²⁾ | | | (6)% | | | (5)% | |
| Average unit selling price ⁽²⁾ | | | 29 % | | | 28 % | |
| Hogs processed | | | (9)% | | | (6)% | |
| Raising costs (per hundredweight) | | | 40 % | | | 40 % | |
| Romania: | | | | | | | |
| Sales volume ⁽²⁾ | | | 14 % | | | 8 % | |
| Average unit selling price ⁽²⁾ | | | 10 % | | | 13 % | |
| Hogs processed | | | 5 % | | | 6 % | |
| Raising costs (per hundredweight) | | | 22 % | | | 26 % | |

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

⁽²⁾ Excludes the sale of live hogs and includes the impact of foreign currency translation.

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

Three Months:

Foreign currency translation effects increased sales by approximately \$40.5 million, or 12%.

Average unit selling price in Poland, excluding the impact of foreign currency translation, increased 12% primarily due to a shift in product mix to more packaged meats products.

Operating profit was negatively impacted by higher raw material costs across all of our international operations and joint ventures, as well as softer demand.

Unfavorable changes in foreign exchange rates negatively impacted equity income from our Mexican joint ventures by \$4.4 million.

Fiscal 2012 operating profit in Poland includes a \$1.9 million gain on the sale of a hog farm.

Six Months:

Foreign currency translation effects increased sales by approximately \$78.6 million, or 12%.

Average unit selling price in Poland, excluding the impact of foreign currency translation, increased 13% primarily due to a shift in product mix to more packaged meats products.

Operating profit was negatively impacted by higher raw material costs across all of our international operations and joint ventures, as well as softer demand.

Unfavorable changes in foreign exchange rates negatively impacted equity income from our Mexican joint ventures by \$3.4 million.

Fiscal 2012 operating profit in Poland includes a \$1.9 million gain on the sale of a hog farm.

Corporate Segment

| | Three Months Ended | | | Six Months Ended | | |
|----------------|---------------------|---------------------|-------------|---------------------|---------------------|-------------|
| | October 30, 2011 | October 31, 2010 | % Change | October 30, 2011 | October 31, 2010 | % Change |
| Operating loss | \$(27.7) | \$(30.2) | 8 % | \$(60.9) | \$(55.4) | (10)% |

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

Three Months:

The decrease in operating loss is primarily related to lower variable compensation expenses.

Six Months:

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

LIQUIDITY AND CAPITAL RESOURCES

Summary

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

We believe that our current liquidity position is strong and that our cash flows from operations and availability under our credit facilities will be sufficient to meet our working capital needs and financial obligations for at least the next twelve months. As of October 30, 2011, our liquidity position was approximately \$1.1 billion, comprised of \$952.8 million in availability under our credit facilities and \$136.4 million in cash and cash equivalents. Additionally, we have no substantial debt obligations coming due until fiscal 2014.

Sources of Liquidity

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

Accounts Receivable and Inventories

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

Credit Facilities

| Facility | October 30, 2011 | | | | |
|--------------------------|------------------|---------------------------------|-------------------------------------|---------------------------|---------------------|
| | Capacity | Borrowing Base Adjustment | Outstanding Letters of Credit | Outstanding Borrowings | Amount Available |
| | (in millions) | | | | |
| Inventory Revolver | \$925.0 | \$— | \$— | \$— | \$925.0 |
| Securitization Facility | 275.0 | — | (115.9) | (150.0) | 9.1 |
| International facilities | 109.1 | — | — | (90.4) | 18.7 |
| Total credit facilities | \$1,309.1 | \$— | \$(115.9) | \$(240.4) | \$952.8 |

In June 2011 (fiscal 2012), we refinanced the ABL Credit Facility into two separate facilities: (1) the Inventory Revolver and (2) the Securitization Facility. We may request working capital loans and letters of credit under both facilities.

Availability under the Inventory Revolver is a function of the level of eligible inventories, subject to reserves. The Inventory Revolver matures in June 2016. However, it will mature on March 15, 2014 if the outstanding principal balance of our senior secured notes due July 2014 (2014 Notes), net of the amount of cash in excess of \$75 million, exceeds \$300 million on that date. The unused commitment fee and the interest rate spreads are a function of our leverage ratio (as defined in the Second Amended and Restated Credit Agreement). As of October 30, 2011, the unused commitment fee and interest rate were 0.375% and LIBOR plus 2.5%, respectively. The Inventory Revolver includes financial covenants. The ratio of our funded debt to capitalization (as defined in the Second Amended and Restated Credit Agreement) may not exceed 0.5 to 1.0, and our EBITDA to interest expense ratio (as defined in the Second Amended and Restated Credit Agreement) may not be less than 2.5 to 1.0. Obligations under the Inventory Revolver are guaranteed by our material U.S. subsidiaries and are secured by (i) a first priority lien on certain personal property, including cash and cash equivalents, deposit accounts, inventory, intellectual property, and certain equity interests (the Inventory Revolver Collateral), and (ii) a second priority lien on substantially all of the guarantors' real property, fixtures and equipment (the Non-Inventory Revolver Collateral).

The term of the Securitization Facility is three years. As part of the arrangement, all accounts receivable of our major Pork segment subsidiaries are sold to a wholly-owned “bankruptcy remote” special purpose vehicle (SPV). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in our consolidated financial statements and therefore, the accounts receivable owned by it are included in our consolidated balance sheet. However, the accounts receivable owned by the SPV are separate and distinct from our other assets and are not available to our other creditors should we become insolvent. The SPV held \$494.9 million of accounts receivable as of October 30, 2011.

The unused commitment fee and the interest rate spreads under the Securitization Facility are a function of our leverage ratio (as defined in the Second Amended and Restated Credit Agreement). As of October 30, 2011, the unused commitment fee and interest rate were 0.375% and the lender's cost of funds of 0.28% plus 1.25%, respectively.

Securities

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

Cash Flows

Operating Activities

| | Six Months Ended | |
|--|---------------------|---------------------|
| | October 30, 2011 | October 31, 2010 |
| | (in millions) | |
| Net cash flows (used by) from operating activities | \$(66.3 |) \$237.8 |

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

Cash paid to outside hog suppliers was significantly higher due to a 20% increase in average live hog market prices.

Cash paid for grain purchased by the Hog Production segment was approximately \$152.2 million higher than the prior year due to increased feed prices.

Cash received for the settlement of derivative contracts and for margin requirements decreased \$39.8 million.

We contributed \$132.1 million to our qualified and non-qualified pension plans in fiscal 2012, including a \$100.0 million voluntary contribution, compared to \$101.1 million in fiscal 2011.

Variable compensation paid in fiscal 2012 related to the prior year's performance was higher than the corresponding amount paid in fiscal 2011.

Cash received from customers increased primarily as a result of higher selling prices.

Investing Activities

| | Six Months Ended | |
|---|---------------------|---------------------|
| | October 30, 2011 | October 31, 2010 |
| | (in millions) | |
| Capital expenditures | \$(139.4) | \$(68.3) |
| Net disposals of breeding stock | 9.9 | 19.9 |
| Other | 4.8 | 10.9 |
| Net cash flows used by investing activities | \$(124.7) | \$(37.5) |

The following items explain the significant investing activities for the six months ended October 30, 2011 and October 31, 2010:

Fiscal 2012

Capital expenditures primarily related to plant and hog farm improvement projects, including approximately \$22 million related to the Cost Savings Initiative.

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

Fiscal 2011

Capital expenditures primarily related to plant and hog farm improvement projects, including approximately \$16 million related to the Cost Savings Initiative.

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

Financing Activities

| | Six Months Ended | |
|--|---------------------|---------------------|
| | October 30, 2011 | October 31, 2010 |
| | (in millions) | |
| Principal payments on long-term debt and capital lease obligations | \$(124.1) | \$(230.7) |
| Net proceeds from revolving credit facilities and notes payable | 176.0 | 35.3 |
| Repurchase of common stock | (110.6) | — |
| Change in cash collateral | 23.9 | (27.7) |
| Debt issuance costs and other | (10.9) | 0.3 |
| Net cash flows used by financing activities | \$(45.7) | \$(222.8) |

The following items explain the significant financing activities for the six months ended October 30, 2011 and October 31, 2010:

Fiscal 2012

We redeemed the remaining \$77.8 million of our 7% senior unsecured notes due August 2011 and repurchased \$37.1 million of our 10% senior secured notes due July 2014.

We received \$176.0 million from draws on credit facilities, including \$150.0 million from the Securitization Facility.

We repurchased 5,515,377 shares of our common stock for \$110.6 million as part of the share repurchase program approved by our board of directors in June 2011 (fiscal 2012), which is more fully explained under "Additional Matters Affecting Liquidity."

We paid \$11.0 million of debt issuance costs in connection with the refinancing of the ABL Credit Facility.

We received \$20.0 million of cash previously held in a deposit account to serve as collateral for overdrafts on certain of our bank accounts and \$3.9 million of cash to the counterparty of our interest rate swap contract which expired in August 2011 (fiscal 2012).

Fiscal 2011

We repurchased \$203.8 million of our 7% senior unsecured notes due August 2011.

We repaid \$26.2 million on outstanding loans in the International segment

We received \$14.1 million and \$16.4 million, respectively, from the issuance of notes payable and draws on credit facilities in the International segment.

We transferred \$20.0 million of cash into a deposit account to serve as collateral for overdrafts on certain of our bank accounts in place of letters of credit previously used under our banking agreement and \$7.7 million of cash to the counterparty of our interest rate swap contract to serve as collateral and replace letters of credit previously provided under the contract.

Interest Rate Spread

As of October 30, 2011, the interest rate on the Securitization Facility was the lender's cost of funds of 0.28% plus 1.25%. Although we had no borrowings outstanding under the Inventory Revolver, the applicable interest rate would have been LIBOR plus 2.5%. Both interest rate spreads are based on pricing-level grids in the respective agreements and determined by our Funded Debt to EBITDA ratio (as defined in the Second Amended and Restated Credit Agreement).

Guarantees

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

We (together with our joint venture partners) guarantee financial obligations of certain unconsolidated joint ventures. The financial obligations are: up to \$87.0 million of debt borrowed by Agroindustrial del Noroeste (Norson), of which \$60.0 million was outstanding as of October 30, 2011, and up to \$3.5 million of liabilities with respect to currency swaps executed by another of our unconsolidated Mexican joint ventures, Granjas Carroll de Mexico. The covenants in the guarantee relating to Norson's debt incorporate our covenants under the Inventory Revolver. In addition, we continue to guarantee \$11.9 million of leases that were transferred to JBS S.A. in connection with the sale of Smithfield Beef, Inc. Some of these lease guarantees may be released in the near future and others may remain in place until the leases expire through February 2022.

Additional Matters Affecting Liquidity

Capital Projects

As of October 30, 2011, we had total estimated remaining capital expenditures of approximately \$188 million on approved projects, including approximately \$73 million related to our Kinston, North Carolina plant expansion project, which is more fully explained under "Significant Events Affecting Results of Operations." These projects are expected to be funded with cash flows from operations and/or borrowings under credit facilities.

Share Repurchase Program

In June 2011 (fiscal 2012), we announced that our board of directors had approved a share repurchase program authorizing us to buy up to \$150.0 million of our common stock over the subsequent 24 month period (the Share Repurchase Program). This authorization replaced our previous share repurchase program.

In September 2011 (fiscal 2012), our board of directors approved an increase of \$100.0 million to the authorized amount of the Share Repurchase Program. Share repurchases may be made on the open market or in privately negotiated transactions. The number of shares repurchased, and the timing of any buybacks, depend on corporate cash balances, business and economic

conditions and other factors, including investment opportunities. The Share Repurchase Program may be discontinued at any time.

During the six months ended October 30, 2011, we repurchased 5,515,377 shares of our common stock for \$110.6 million. All share repurchases were funded from cash on hand.

Group Pens

In January 2007 (fiscal 2007), we announced a voluntary, ten-year program to phase out individual gestation stalls at our sow farms and replace the gestation stalls with group pens. We currently estimate the total cost of our transition to group pens to be approximately \$300 million. This program represents a significant financial commitment and reflects our desire to be more animal friendly, as well as to address the concerns and needs of our customers. By the end of calendar year 2011, we expect that approximately 30% of our sows on company-owned farms will be in group housing facilities.

Risk Management Activities

We are exposed to market risks primarily from changes in commodity prices, and to a lesser degree, interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates, as more fully described under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments" in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. Our liquidity position may be positively or negatively affected by changes in the underlying value of our derivative portfolio. When the value of our open derivative contracts decreases, we may be required to post margin deposits with our brokers to cover a portion of the decrease. Conversely, when the value of our open derivative contracts increases, our brokers may be required to deliver margin deposits to us for a portion of the increase. During the first half of fiscal 2012, margin deposits posted by us ranged from \$(17.5) million to \$66.9 million (negative amounts representing margin deposits we have received from our brokers). The average daily amount on deposit with brokers during the first half of fiscal 2012 was \$15.4 million. As of October 30, 2011, the net amount on deposit with brokers was \$32.5 million.

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

Missouri Litigation

As further described under "Results of Operations" above, we have made substantial progress in global settlement negotiations with counsel representing substantially all of the plaintiffs in the Missouri nuisance suits. As a result of this progress, we believe a global settlement with those plaintiffs is probable although we have not yet entered into a global settlement agreement and there is no assurance that we will be successful in doing so. If a settlement is reached, we intend to seek recovery under various insurance policies and believe that we could eventually recover a substantial portion of the settlement payment. Although legal expenses incurred in our and our subsidiaries' defense of these claims and any payments made to plaintiffs will reduce our cash flows and our liquidity position, we do not expect such payments to have a material adverse impact on our overall financial position or liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated condensed financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our experience and our understanding of the current facts and circumstances. Actual results could differ from those estimates. The following describes updates to our critical accounting policies and estimates, which are more fully described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011.

Impairment Considerations of Equity Method Investments

We consider whether the fair values of our equity method investments have declined below their carrying values whenever adverse events or changes in circumstances indicate that the carrying value may not be recoverable. If we consider any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the affiliate's industry), then we would write down the carrying amount of the investment to its estimated fair value.

During the second quarter of fiscal 2012, CFG's stock price, like many global equity markets, experienced significant volatility and dropped as low as €5.28 per share and, for the first time in over twelve months, the carrying value of our investment in CFG exceeded the estimated fair value, indicating a potential impairment. However, given the significant volatility experienced in the stock and the overall equity markets, the short duration and limited severity of the decline and the historical trading levels of the stock, we assessed these conditions as being temporary and no adjustment to the carrying value of our investment was deemed necessary. However, should these conditions recur and persist for an extended period of time, a conclusion could be reached in the future that an impairment exists that is other than temporary, at which time we would write down the carrying amount of our investment to its estimated fair value.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking" statements within the meaning of the federal securities laws. The forward-looking statements include statements concerning our outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Our forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the availability and prices of live hogs, raw materials, fuel and supplies, food safety, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, risks associated with our indebtedness, including cost increases due to rising interest rates or changes in debt ratings or outlook, hedging risk, operating efficiencies, changes in foreign currency exchange rates, access to capital, the cost of compliance with and changes to regulations and laws, including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws, adverse results from on-going litigation, actions of domestic and foreign governments, labor relations issues, credit exposure to large customers, the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, our ability to effectively restructure portions of our operations and achieve cost savings from such restructurings and other risks and uncertainties described under "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q for the quarter ended October 30, 2011 and under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. Readers are cautioned not to place undue reliance on forward-looking statements because actual results may differ materially from those expressed in, or implied by, the statements. Any forward-looking statement that we make speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For complete quantitative and qualitative disclosures about market risk affecting the Company, see “Item 7A. Qualitative and Quantitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. The following table presents the sensitivity of the fair value of our open commodity contracts and interest rate and foreign currency contracts to a hypothetical 10% change in market prices or in interest rates and foreign exchange rates, as of October 30, 2011 and May 1, 2011.

| | October 30, 2011 | May 1, 2011 |
|------------------|---------------------|----------------|
| | (in millions) | |
| Grains | \$43.2 | \$33.1 |
| Livestock | 24.0 | 85.4 |
| Energy | 0.8 | 0.3 |
| Interest rates | — | — |
| Foreign currency | 11.3 | 11.0 |

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of October 30, 2011. Based on that evaluation, management, including the CEO and CFO, has concluded that our disclosure controls and procedures were effective as of October 30, 2011. There were no changes in our internal control over financial reporting during our second quarter of fiscal 2012 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than the following matters, there have been no material changes with respect to the legal proceedings disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011 and our Quarterly Report on Form 10-Q for the quarter ended July 31, 2011, nor have any significant new matters arisen during the three months ended October 30, 2011.

Missouri Litigation

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011 and our Quarterly Report on Form 10-Q for the quarter ended July 31, 2011, in 2002, lawsuits based on the law of nuisance were filed against Premium Standard Farms (PSF), a wholly-owned subsidiary acquired on May 7, 2007, and Continental Grain Company (CGC) in the Circuit Court of Jackson County, Missouri entitled Steven Adwell, et al. v. PSF, et al. and Michael Adwell, et al. v. PSF, et al. The next Adwell trial, which will resolve the claims of up to 28 plaintiffs who live near Scott Colby farm, has been scheduled to commence on February 4, 2013, and discovery is ongoing.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, in May 2004, a putative class action lawsuit entitled Daniel Herrold, et al. and Others Similarly Situated v. ContiGroup Companies, Inc., PSF, and PSF Group Holdings, Inc. was filed in the Circuit Court of Jackson County, Missouri. As a result of various venue transfer rulings and notices of dismissal, Herrold cases are pending in Chariton, Clark, DeKalb, Harrison, Jackson, and Linn counties. Trial for one of the Herrold cases pending in Harrison County, Engel, et al. v. PSF, et al., which involves the claims of four plaintiffs, has been scheduled to commence on October 9, 2012, and discovery is ongoing.

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, in May 2007, a nuisance lawsuit entitled Jake Cooper, et al. v. Smithfield Foods, Inc., et al. was filed against numerous defendants in the Circuit Court of Vernon County, Missouri. Trial for the claims of the eleven plaintiffs remaining in the Cooper case has been scheduled to commence on May 1, 2013, and discovery is ongoing.

Sioux Falls Facility

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011, the United States Department of Justice (DOJ) notified our John Morrell subsidiary that the EPA had referred a civil enforcement action against the company. DOJ alleges that John Morrell has violated certain chemical accident prevention requirements of section 112(r)(7) of the federal Clean Air Act in connection with operations of the refrigeration systems at its Sioux Falls facility. After discussions with the DOJ and EPA, we have agreed to settle these violations for \$206,000. The parties filed a Notice of Lodging and proposed consent decree with the United States District Court for the District of South Dakota on October 7, 2011. The thirty day public comment period for the filing has expired and we anticipate that the court will enter the consent decree during the Company's third fiscal quarter.

ITEM 1A. RISK FACTORS

The following risk factor has been updated from the previous disclosure in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011.

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

A number of states, including Iowa and Missouri, have adopted legislation that prohibits or restricts the ability of meat packers, or in some cases corporations generally, from owning livestock or engaging in farming. In addition, Congress has in the past considered federal legislation that would ban meat packers from owning livestock. We cannot assure you that such or similar legislation affecting our operations will not be adopted at the federal or state levels in the future. Such legislation, if adopted and applicable to our current operations and not successfully challenged or settled, could have a material adverse impact on our operations and our financial statements.

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ |
|---|---|--|---|---|
| August 1, 2011 to August 31, 2011 | 1,598,500 | ⁽¹⁾ \$19.42 | 1,598,500 | \$84,911,763 |
| September 1, 2011 to September 30, 2011 | 2,441,839 | ⁽¹⁾ ⁽²⁾ \$19.02 | 2,389,681 | \$139,437,442 |
| October 1, 2011 to October 30, 2011 | — | n/a | n/a | \$139,437,442 |
| Total | 4,040,339 | \$19.18 | 3,988,181 | \$139,434,442 |

On June 16, 2011, we announced that our board of directors had approved a share repurchase program authorizing the Company to buy up to \$150,000,000 of its common stock. In September 2011, our board of directors approved ⁽¹⁾ a \$100,000,000 increase to the authorized amount. The shares purchased pursuant to this program were purchased in open market transactions and all the shares detailed in the table above were purchased pursuant to this plan except for the shares detailed in footnote 2 below. This share repurchase program expires on June 16, 2013.

Purchases of 52,158 shares were made in open market transactions by Wells Fargo, as trustee, and these 52,158 ⁽²⁾ shares are held in a rabbi trust for the benefit of participants in the Smithfield Foods, Inc. 2008 Incentive Compensation Plan director fee deferral program. The 2008 Incentive Compensation Plan was approved by our shareholders on August 27, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

| | | |
|--------------|---|--|
| Exhibit 3.1 | — | Articles of Amendment effective August 27, 2009 to the Amended and Restated Articles of Incorporation, including the Amended and Restated Articles of Incorporation of the Company, as amended to date (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on September 11, 2009). |
| Exhibit 3.2 | — | Amendment to the Bylaws effective June 16, 2010, including the Bylaws of the Company, as amended to date (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the SEC on June 18, 2010). |
| Exhibit 31.1 | — | Certification of C. Larry Pope, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| Exhibit 31.2 | — | Certification of Robert W. Manly, IV, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| Exhibit 32.1 | — | Certification of C. Larry Pope, President and Chief Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| Exhibit 32.2 | — | Certification of Robert W. Manly, IV, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| Exhibit 101 | — | The following financial statements from Smithfield Foods, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 30, 2011, formatted in XBRL: (i) Consolidated Condensed |

Edgar Filing: SMITHFIELD FOODS INC - Form 10-Q

Statements of Income, (ii) Consolidated Condensed Balance Sheets, (iii) Consolidated Condensed Statements of Cash Flows, and (iv) the Notes to Consolidated Condensed Financial Statements (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Smithfield Foods, Inc.

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

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

Date: December 9, 2011