

SMITHFIELD FOODS INC
Form 10-KT
March 20, 2014

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

FORM 10-K

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

For the transition period from: April 29, 2013 to December 29, 2013

Commission file number: 1-15321

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

Virginia
(State or other jurisdiction of incorporation or organization)

200 Commerce Street
Smithfield, Virginia
(Address of principal executive offices)

(757) 365-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

52-0845861
(I.R.S. Employer Identification No.)

23430

(Zip Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of October 27, 2013, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public trading market for the common stock of the registrant and therefore, an aggregate market value of the registrant's shares is not determinable.

At March 18, 2014, 1,000 shares of the registrant's Common Stock (no par value per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Smithfield Foods, Inc., together with its subsidiaries (the "Company," "Smithfield," "we," "us" or "our"), began as a pork processing operation called The Smithfield Packing Company, founded in 1936 by Joseph W. Luter and his son, Joseph W. Luter, Jr. Through a series of acquisitions starting in 1981, we have become the largest pork processor and hog producer in the world.

We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We operate in a cyclical industry and our results are affected by fluctuations in commodity prices. Additionally, some of the key factors influencing our business are customer preferences and demand for our products; our ability to maintain and grow relationships with customers; the introduction of new and innovative products to the marketplace; accessibility to international markets for our products including the effects of any trade barriers; and operating efficiencies of our facilities.

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

WH Group Merger

On September 26, 2013 (the Merger Date), pursuant to the Agreement and Plan of Merger dated May 28, 2013 (the Merger Agreement) with WH Group Limited, formerly Shuanghui International Holdings Limited, a corporation formed under the laws of the Cayman Islands hereinafter referred to as WH Group, the Company merged with Sun Merger Sub, Inc., a Virginia corporation and wholly owned subsidiary of WH Group (Merger Sub), in a transaction hereinafter referred to as the Merger. As a result of the Merger, the Company survived as a wholly owned subsidiary of WH Group.

Upon completion of the Merger, all outstanding shares of Smithfield were cancelled and the Company's shareholders received \$34.00 in cash (the Merger Consideration) for each share of common stock held prior to the effective time of the Merger. In addition, all outstanding stock-based compensation awards, both vested and unvested, were converted into the right to receive the Merger Consideration, less the exercise price of such awards, if any.

In connection with the Merger, Merger Sub issued \$500.0 million aggregate principal amount of 5.25% senior notes due August 1, 2018 and \$400.0 million aggregate principal amount of 5.875% senior notes due August 1, 2021 (together, the Merger Sub Notes). Merger Sub incurred \$20.4 million in transaction fees in connection with the issuance of the Merger Sub Notes, which are being amortized over the life of the Merger Sub Notes. As a result of the Merger and the transactions entered into in connection therewith, we have assumed the liabilities and obligations of Merger Sub, including Merger Sub's obligations under the Merger Sub Notes. Proceeds from the Merger Sub Notes were held in escrow prior to the Merger Date and used to fund a portion of the total consideration paid, repay certain outstanding debt of the Company and pay certain transaction fees associated with the Merger.

The Merger enables Smithfield to continue to execute on its strategic priorities while maintaining brand excellence and its commitment to environmental stewardship and animal welfare. We have established Smithfield as the world's leading vertically integrated pork processor and hog producer with best-in-class operations and outstanding food safety practices. Operationally, we have become part of an enterprise that shares our belief in global opportunities and

our commitment to the highest standards of product safety and quality. With our shared expertise and leadership, we expect to accelerate a global expansion strategy as part of WH Group.

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On January 16, 2014, in connection with the consummation of the Merger, the Company elected to change its fiscal year end from the 52 or 53 week period which ends on the Sunday nearest to April 30 to the 52 or 53 week period which ends on the Sunday nearest to December 31. Unless otherwise noted, all references to “fiscal” in this report refer to the twelve-month fiscal year, which as of and prior to April 29, 2013 ended on the Sunday nearest to April 30, and beginning after December 29, 2013 ends on the Sunday nearest December 31 of each year. This Form 10-K covers the transition period of April 29, 2013 through December 29, 2013 (the Transition Period).

Acquisition

Kansas City Sausage, LLC

In May 2013, we acquired a 50% interest in Kansas City Sausage Company, LLC (KCS), for \$36.0 million in cash. Upon closing, in addition to the cash purchase price, we advanced \$10.0 million to the seller in exchange for a promissory note, which is secured by the remaining membership interests in KCS held by the seller. Additionally, we entered into a revolving loan agreement with KCS, under which we agreed to make loans from time to time up to an aggregate principal amount of \$20.0 million. The aggregate amount of any obligations incurred under the revolving loan agreement is secured by a first priority security interest in all of the assets of KCS.

KCS is a leading U.S. sausage producer and sow processor. We intend to merge KCS's low-cost, efficient operations and high-quality products with our strong brands and sales and marketing team to continue to grow our packaged meats business. The venture will operate in Des Moines, Iowa and Kansas City, Missouri. In Des Moines, the venture will produce premium raw materials for sausage, as well as value-added products, including boneless hams and hides. The Kansas City plant is a modern sausage processing facility and is designed for optimum efficiency to provide retail and foodservice customers with high quality products. With our strong ongoing focus on building our packaged meats business, and our access to 15% of the U.S. sow population, this joint venture is a logical fit for the Company. It will provide a growth platform in two key packaged meats categories — breakfast sausage and dinner sausage — and will allow us to expand our product offerings to our customers. These categories represent over \$4.0 billion in retail and foodservice sales annually.

DESCRIPTION OF SEGMENTS

Pork Segment

The Pork segment consists mainly of three wholly-owned U.S. fresh pork and packaged meats subsidiaries: Smithfield Packing, Farmland Foods and John Morrell. The Pork segment produces a wide variety of fresh pork and packaged meats products in the U.S. and markets them nationwide and to numerous foreign markets, including China, Japan, Mexico, Russia and Canada. The Pork segment currently operates approximately 40 processing plants. We process hogs at eight plants (five in the Midwest and three in the Southeast), with an aggregate slaughter capacity of approximately 113,000 hogs per day. In the Transition Period, the Pork segment processed approximately 19.3 million hogs.

The Pork segment sold approximately 2.6 billion pounds of fresh pork in the Transition Period. A substantial portion of our fresh pork is sold to retail customers as unprocessed, trimmed cuts such as butts, loins (including roasts and chops), picnics and ribs.

The Pork segment also sold approximately 1.9 billion pounds of packaged meats products in the Transition Period. We produce a wide variety of packaged meats, including smoked and boiled hams, bacon, sausage, hot dogs (pork, beef and chicken), deli and luncheon meats, specialty products such as pepperoni, dry meat products, and ready-to-eat, prepared foods such as pre-cooked entrees and pre-cooked bacon and sausage. We market our domestic packaged meats products under a number of labels including the following core brand names: Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook's, Curly's and Healthy Ones. We also sell a substantial quantity of packaged meats as private-label products.

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

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

	The Transition Period April 29 - December 29, 2013	Fiscal Year Ended			
		April 28, 2013	April 29, 2012	May 1, 2011	
Packaged meats	56	% 56	% 54	% 56	%
Fresh pork ⁽¹⁾	44	44	46	44	
	100	% 100	% 100	% 100	%

⁽¹⁾ Includes by-products and rendering.

In the Transition Period, export sales comprised approximately 14% of the Pork segment's volumes and approximately 12% of the segment's revenues.

Hog Production Segment

As a complement to our Pork segment, we have vertically integrated into hog production and are the world's largest hog producer. The Hog Production segment consists of our hog production operations located in the U.S. The Hog Production segment operates numerous hog production facilities with approximately 894,000 sows producing about 16.2 million market hogs annually.

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

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

	The Transition Period April 29 - December 29, 2013	Fiscal Year Ended			
		April 28, 2013	April 29, 2012	May 1, 2011	
Internal hog sales	80	% 76	% 80	% 78	%
External hog sales	13	14	17	19	
Other products ⁽¹⁾	7	10	3	3	
	100	% 100	% 100	% 100	%

⁽¹⁾ Consists primarily of grains, feed and gains (losses) on derivatives.

Genetics

We own certain genetic lines of breeding stock which are marketed using the name Smithfield Premium Genetics (SPG). The Hog Production segment makes extensive use of these genetic lines, with approximately 894,000 SPG breeding sows. In addition, we have sublicensed some of these rights to some of our strategic hog production partners. In the Transition Period, we produced approximately 10.9 million market hogs from SPG breeding stock.

Hog production operations

We use advanced management techniques to produce premium quality hogs on a large scale at a low cost. We develop breeding stock, optimize diets for our hogs at each stage of the growth process, process feed for our hogs and design hog containment facilities. We believe our economies of scale and production methods, together with our use of the advanced SPG genetics, make us a low cost producer of premium quality hogs. We also utilize independent farmers and their facilities to raise hogs produced from our breeding stock. Under multi-year contracts, a farmer provides the initial facility investment, labor and front line management in exchange for a service fee. In the Transition Period, approximately 74% of our market hogs were finished on contract farms.

International Segment

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

The following table shows the percentages of International segment revenues derived from packaged meats, fresh meats and hog production for the periods indicated.

	The Transition Period	Fiscal Year Ended			
	April 29 - December 29, 2013	April 28, 2013	April 29, 2012	May 1, 2011	
Packaged meats	44	% 49	% 46	% 47	%
Fresh meats ⁽¹⁾	55	50	53	53	
Hog production ⁽²⁾	1	1	1	—	
	100	% 100	% 100	% 100	%

⁽¹⁾ Includes feathers, by-products and rendering

⁽²⁾ Includes external hog sales and feed

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

SEGMENTS IN GENERAL

Sources and Availability of Raw Materials

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

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

The Pork segment purchased approximately 49% of its U.S. live hog requirements from the Hog Production segment in the Transition Period. In addition, we have established multi-year agreements with Maxwell Foods, Inc. and Prestage Farms, Inc., which provide us with a stable supply of high-quality hogs at market-indexed prices. These producers supplied approximately 12% of hogs processed by the Pork segment in the Transition Period. We also purchase hogs on a daily basis at our Southeastern and Midwestern processing plants and our company-owned buying stations in the Southeast and Midwest.

Like the Pork segment, live hogs are the primary raw materials of our meat processing operations in the International segment with the primary source of hogs being our hog production operations located in Poland and Romania. Our meat processing operations in the International segment purchased approximately 74% of its live hog requirements from our hog production operations located in Poland and Romania in the Transition Period.

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

Nutrient Management and Other Environmental Issues

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

Hog production facilities generate significant quantities of manure, which must be managed properly to protect public health and the environment. We believe that we use the best technologies currently available and economically feasible for the management of swine manure, which require permits under state, and in some instances, federal law. The permits impose standards and conditions on the design and operation of the systems to protect public health and the environment, and can also impose nutrient management planning requirements depending on the type of system utilized. The most common system of swine manure management employed by our hog production facilities is the lagoon and spray field system, in which lined earthen lagoons are utilized to treat the manure before it is applied to agricultural fields by spray application. The nitrogen and phosphorus in the treated manure serve as a crop fertilizer. We follow a number of other policies and protocols to reduce the impact of our hog production operations on the environment, including: the employment of environmental management systems; ongoing employee training regarding environmental controls; walk-around inspections at all sites by trained personnel; formal emergency response plans that are regularly updated; and collaboration with manufacturers regarding testing and developing new equipment. For further information see "Regulation" below.

Customers and Marketing

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

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

Methods of Distribution

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

Trademarks

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

Seasonality

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

Competition

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

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

Research and Development

We conduct continuous research and development activities to develop new products and to improve existing products and processes. We incurred expenses on company-sponsored research and development activities of \$55.1 million, \$80.9 million, \$75.9 million and \$47.0 million in the Transition Period, fiscal year ended April 28, 2013, fiscal year ended April 29, 2012 and fiscal year ended May 1, 2011, respectively.

FINANCIAL INFORMATION ABOUT SEGMENTS

Financial information for each reportable segment, including revenues, operating profit and total assets, is disclosed in Note 15—Reportable Segments in “Item 8. Financial Statements and Supplementary Data.”

RISK MANAGEMENT AND HEDGING

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

REGULATION

Regulation in General

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

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

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

We use internationally recognized management systems to manage many of our regulatory programs. For example, we use the International Organization for Standardization (ISO) 14001:2004 standard to manage and optimize environmental performance, and we were the first in the industry to achieve ISO 14001:2004 certification for our hog production and processing facilities. ISO guidelines require a long-term management plan integrating regular third-party audits, goal setting, corrective action, documentation, and executive review. Our Environmental Management System (EMS), which conforms to the ISO 14001:2004 standard, addresses the significant environmental aspects of our operations, provides employee training programs and facilitates engagement with local communities and regulators. Most importantly, the EMS allows the collection, analysis and reporting of relevant environmental data to facilitate our compliance with applicable environmental laws and regulations.

Water

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

Air

During calendar year 2002, the National Academy of Sciences (the Academy) undertook a study at EPA's request to assist EPA in considering possible future regulation of air emissions from animal feeding operations. The Academy's study identified a need for more research and better information, but also recommended implementing without delay technically and economically feasible management practices to decrease emissions. Further, our hog production subsidiaries have accepted EPA's offer to enter into an administrative consent agreement and order with owners and operators of hog farms and other animal production operations. Under the terms of the consent agreement and order, participating owners and operators agreed to pay a penalty, contribute towards the cost of an air emissions monitoring study and make their farms available for monitoring. In return, participating farms have been given immunity from federal civil enforcement actions alleging violations of air emissions requirements under certain federal statutes, including the Clean Air Act. Pursuant to our consent agreement and order, we paid a \$100,000 penalty to EPA. Premium Standard Farm, Inc.'s (PSF's) (now Murphy-Brown of Missouri LLC's) Texas farms and company-owned farms in North Carolina also agreed to participate in this program. The National Pork Board, of which we are a member and financial contributor, paid the costs of the air emissions monitoring study on behalf of all hog producers, including us, out of funds collected from its members in previous years. The cost of the study for all hog producers was approximately \$6.0 million. Monitoring under the study began in the spring 2007 and ended in the winter 2010. EPA made the data available to the public in January 2011 and also issued a Call for Information seeking additional emissions data to ensure it considers the broadest range of available scientific data as it develops improved

methodologies for estimating emissions. EPA will review the data to develop emissions estimating methodologies where site-specific information is unavailable. In March 2012, EPA made available draft emission estimation methodologies for broilers and swine and dairy feedings operations for public comment. EPA has not announced when it expects to finalize the methodologies. New regulations governing air emissions from animal agriculture operations are likely to emerge from the monitoring program undertaken pursuant to the consent agreement and order. There can be no assurance that any new regulations that may be

proposed to address air emissions from animal feeding operations will not have a material adverse effect on our financial position or results of operations.

Greenhouse Gases (GHGs) and Climate Change

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

The EPA finalized regulations in calendar year 2010 under the Clean Air Act, which may trigger new source review and permitting requirements for certain sources of GHG emissions. Beginning in early 2011, when GHG emissions standards for light-duty vehicles took effect, permits issued under the Clean Air Act permitting programs for large stationary sources of air pollution - the Prevention of Significant Deterioration (PSD) and the Title V Operating Permit Programs - must address GHGs. In April 2012, EPA issued the GHG Tailoring Rule to ensure that only the largest sources of GHGs, those responsible for 70 percent of the GHG pollution from stationary sources, would require air permits.

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

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

Regulatory and Other Proceedings

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

In March 2006, we entered into a consent decree that settled two citizen lawsuits alleging among other things violations of certain environmental laws. The consent decree provides, among other things, that our subsidiary, Murphy-Brown LLC, will undertake a series of measures designed to enhance the performance of the swine waste management systems on approximately 244 company-owned farms in North Carolina and thereby reduce the potential for surface water or ground water contamination from these farms. Murphy-Brown has successfully completed a number of the measures called for in the consent decree and expects to fulfill its remaining consent decree obligations over the next 12 to 24 months, at which time it will move for termination of the decree.

Prior to our acquisition of PSF, it had entered into a consent judgment with the State of Missouri and a consent decree with the federal government and a citizens group. The judgment and decree generally required that PSF pay penalties to settle past alleged regulatory violations, utilize new technologies to reduce nitrogen in the material that it applies to farm fields and research, and develop and implement "Next Generation Technology" for environmental controls at

certain of its Missouri farm operations. PSF has successfully completed the measures called for in the state judgment and the state court terminated the judgment in the fall of 2012. PSF has also completed a number of the measures called for in the federal consent decree, but is

unable to predict at this time when it will complete the remaining consent decree obligations or when the consent decree will be terminated.

Environmental Stewardship

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

Animal Care

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

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

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

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

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

At all of our slaughter facilities, we also use a systematic approach that includes the following:

- an animal welfare and humane handling manual;
- a comprehensive training program; and
- an auditing system with internal verification and third-party audits.

Our plants all have developed quality programs following the standards set in the U.S. Department of Agriculture's Process Verified Program (PVP), as described elsewhere in this report. Our PVP programs monitor aspects of traceability, country of origin, PQA Plus® adherence on farms, and Transport Quality Assurance status of drivers.

In January 2007, we announced a voluntary, ten-year program to phase out individual gestation stalls at our company-owned 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 \$360.0 million, including associated maintenance and repairs. This program represents a significant financial commitment and reflects our desire to be more animal friendly, as well as to address the concerns and needs of our customers. As of the end of calendar year 2013, we had completed conversions to group housing for over 54% of our sows on company-owned farms. We remain on track to finish conversion to group housing for all sows on company-owned farms by the end of 2017. Our hog production operations in Poland and Romania completed their conversions to group housing facilities a number of years ago.

In January 2014, we announced the recommendation that all of our contract sow growers join with us in converting their facilities to group housing systems for pregnant sows. We asked contract sow growers to convert by 2022 and offered a sliding scale of incentives to accelerate that timetable. Growers who commit to convert to group housing will receive contract extensions upon completion of the conversion.

EMPLOYEES

The following table shows the approximate number of our employees and the approximate number of employees covered by collective bargaining agreements or that are members of labor unions in each segment, as of December 29, 2013:

Segment	Employees	Employees Covered by Collective Bargaining Agreements ⁽¹⁾
Pork	32,400	18,166
International	10,250	755
Hog Production	5,050	—
Corporate	200	—
Totals	47,900	18,921

⁽¹⁾ Includes employees that are members of labor unions.

Approximately 3,600 employees are covered by collective bargaining agreements that expire in fiscal 2014. Collective bargaining agreements covering other employees expire over periods throughout the next several years. We believe that our relationship with our employees is satisfactory.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

See Note 15—Reportable Segments in “Item 8. Financial Statements and Supplementary Data” for financial information about geographic areas. See “Item 1A. Risk Factors” for a discussion of the risks associated with our international sales and operations.

AVAILABLE INFORMATION

Our website address is www.smithfieldfoods.com. The information on our website is not part of this transition report. Our transition report on Form 10-K, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after filing or furnishing the material to the SEC. You may read and copy documents we file at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains transition, annual, quarterly and current reports, proxy statements and other information that issuers and voluntary reporting companies, like us, file electronically with the SEC. The SEC’s website is www.sec.gov.

ITEM 1A. RISK FACTORS

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

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

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

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

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

Hog prices demonstrate a cyclical nature over periods of years, changing market supply and demand of hogs on the market. These fluctuations can be significant, as shown in recent years, with average domestic live hog prices going from \$44 per hundredweight in fiscal 2010 to \$65 per hundredweight in fiscal 2012. Further, hog raising costs are largely dependent on the fluctuations of commodity prices for corn and other feed ingredients. For example, our fiscal 2013 results of operations were negatively impacted by higher feed and feed ingredient costs which increased hog raising costs to \$68 per hundredweight in fiscal 2013 compared to \$54 per hundred weight in fiscal 2011. When hog prices are lower than our hog production costs which occurred in fiscal 2013, our non-vertically integrated competitors (i.e., those without significant hog production operations) may have a cost advantage over us.

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

We attempt to manage certain of these risks through the use of our risk management and hedging programs. However, these programs may also limit our ability to participate in gains from favorable commodity fluctuations. Additionally, a portion of our commodity derivative contracts are marked-to-market such that the related unrealized gains and losses are reported in earnings on a quarterly basis. This accounting treatment may cause significant volatility in our quarterly earnings. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments” for further information.

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

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

From time to time, we have experienced outbreaks of livestock diseases and we may experience additional occurrences of disease in the future. Disease can reduce the number of offspring produced, hamper the growth of livestock to finished size, result in expensive vaccination programs and require in some cases the destruction of infected livestock, any of which could adversely affect our production or ability to sell or export our products.

Adverse publicity concerning any disease or health

concern could also cause customers to lose confidence in the safety and quality of our food products, particularly as we expand our branded pork products. In addition to risks associated with maintaining the health of our livestock, any outbreak of disease elsewhere in the U.S. or in other countries could reduce consumer confidence in the meat products affected by the particular disease, generate adverse publicity, depress market conditions for our hogs internationally and/or domestically and result in the imposition of import or export restrictions.

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

Our operations are subject to the general risks associated with the food industry, including perceived or real health risks related to our products or the food industry generally and risks associated with government regulations.

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

- food spoilage,
- food contamination,
- food allergens,
- evolving consumer preferences and nutritional and health-related concerns,
- consumer product liability claims,
- product tampering,
- product labeling errors,
- the expense and possible unavailability of product liability insurance, and
- the potential cost and disruption of a product recall.

Negative publicity relating to our products, brands, operations, industry or products similar to ours may adversely affect consumer perceptions of our products and result in decreased demand for our products. In particular, negative publicity relating to one of our 12 core brands may be particularly harmful since we face risks from brand concentration. Adverse publicity concerning any perceived or real health risk associated with our brands or our products could also cause customers to lose confidence in the safety and quality of our food products, which could adversely affect our ability to sell our reputation, business, financial condition, results of operation and prospects, particularly as we expand our branded products business. We could also be adversely affected by perceived or real health risks associated with similar products produced by others to the extent such risks cause customers to lose confidence in the safety and quality of such products generally and, therefore, lead customers to opt for other meat options that are perceived as safe. The A(H1N1) influenza outbreak that occurred in late fiscal 2009 and early fiscal 2010 illustrates the adverse impact that can result from perceived health risks associated with the products we sell. Although the CDC and other regulatory and scientific bodies indicated that people cannot get A(H1N1) influenza from eating cooked pork or pork products, the perception of some consumers that the disease could be transmitted in that manner was the apparent cause of the temporary decline in pork consumption in late fiscal 2009 and early fiscal 2010.

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

sales as customers lose confidence in the safety and quality of our food products. Any of these events could have an adverse impact on our reputation, business, financial condition, results of operations and prospects.

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

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

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

• the treatment and discharge of materials into the environment,

• the handling and disposition of manure and solid wastes and

• the emission of greenhouse gases.

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

We also face the risk of lawsuits even if we are operating in compliance with applicable regulations. For example, before we acquired PSF and subsequent to our acquisition of PSF, certain nuisance suits in Missouri resulted in jury verdicts against PSF. In fiscal 2013, we consummated a global settlement that resolved the vast majority of the outstanding nuisance litigation in Missouri. See “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-Missouri litigation” for additional details. However, we cannot assure you that additional environmental related lawsuits, including additional nuisance claims, will not arise in the future.

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

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

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

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

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

As of December 29, 2013, we had:

- approximately \$3.0 billion of indebtedness;
- guarantees of \$9.5 million for leases that were transferred to JBS S.A. in connection with the sale of Smithfield Beef, Inc.; and

- aggregate unused capacity available totaling approximately \$1.0 billion under (1) our inventory based revolving credit facility with capacity up to \$1.025 billion, with an option to expand up to \$1.225 billion (the Inventory Revolver), (2) our accounts receivable securitization facility with capacity up to \$275.0 million (the Securitization Facility) and (3) our other credit facilities with capacity of \$142.0 million, such total taking into account outstanding borrowings of \$314.1 million and \$91.4 million of outstanding letters of credit under the Securitization Facility.

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

Our indebtedness may increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures and potential acquisitions or joint ventures. In addition, due to the volatile nature of the commodities markets, we may have to borrow significant amounts to cover any margin calls under our risk management and hedging programs. During the Transition Period, margin deposits posted by us ranged from \$21.7 million to \$106.4 million. Our consolidated indebtedness level could significantly affect our business because: it may, together with the financial and other restrictive covenants in the agreements governing our indebtedness, limit or impair our ability in the future to obtain financing, refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and materially impair our liquidity,

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

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

- a portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes, which amount would increase if prevailing interest rates rise, substantially all of our working capital assets in the United States secure the Inventory Revolver and the Securitization Facility, all of which could limit our ability to dispose of such assets or utilize the proceeds of such dispositions and, upon an event of default under any such secured indebtedness, the lenders thereunder could foreclose upon our pledged assets, and

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

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

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

performance which is subject to economic, financial, competitive and other factors, including the other risks set forth

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in this Item 1A. Any failure to comply with the covenants of our debt agreements could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

Our numerous equity investments in joint ventures, partnerships and other entities, both within and outside the U.S., are periodically involved in modifying and amending their credit facilities and loan agreements. The ability of these entities to refinance or amend their facilities on a successful and satisfactory basis, and to comply with the covenants in their financing facilities, affects our assessment of the carrying value of any individual investment. As of December 29, 2013, none of our equity investments represented more than 5% of our total consolidated assets. If we determine in the future that an investment is impaired, we would be required to record a non-cash impairment charge, which could substantially affect our reported earnings in the period of such charge. In addition, any such impairment charge would negatively impact our financial ratios and could limit our ability to obtain financing in the future. See “Item 8. Notes to Consolidated Financial Statements—Note 5: Investments” for a discussion of the accounting treatment of our equity investments.

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

Sales to international customers accounted for approximately 21% of our net sales in the Transition Period. We conduct foreign operations in Poland, Romania and the United Kingdom and export our products to more than 40 countries. In addition, we are engaged in joint ventures in Mexico and have a significant investment in Western Europe. As of December 29, 2013, approximately 16% of our long-lived assets were associated with our foreign operations. Because of the growing market share of U.S. pork products in the international markets, U.S. exporters are increasingly being affected by measures taken by importing countries to protect local producers.

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

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

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

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

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

Our operations are subject to the general risks of litigation.

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

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

As of December 29, 2013, we had approximately 47,900 employees, 18,921 of whom are covered by collective bargaining agreements or are members of labor unions. Our operations depend on the availability, retention and relative costs of labor and maintaining satisfactory relations with employees and the labor unions. Further, employee shortages can and do occur, particularly in rural areas where some of our operations are located. Labor relations issues arise from time to time, including issues in connection with union efforts to represent employees at our plants and with the negotiation of new collective bargaining agreements. If we fail to maintain satisfactory relations with our employees or with the labor unions, we may experience labor strikes, work stoppages or other labor disputes. Negotiation of collective bargaining agreements also could result in higher ongoing labor costs. In addition, the discovery by us or governmental authorities of undocumented workers, as has occurred in the past, could result in our having to attempt to replace those workers, which could be disruptive to our operations or may be difficult to do. Immigration reform continues to attract significant attention in the public arena and the U.S. Congress. If new immigration legislation is enacted, such laws may contain provisions that could increase our costs in recruiting, training and retaining employees and increase our costs of complying with federal law in reviewing employees' immigration status. Furthermore, increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations.

There can be no assurance that these activities or consequences will not adversely affect our business, financial condition, results of operations or prospects in the future.

The continued consolidation of customers could negatively impact our business.

Our ten largest customers represented approximately 27% of net sales for the Transition Period. We do not have long-term sales agreements (other than to certain third-party hog customers) or other contractual assurances as to future sales to these major customers. In addition, continued consolidation within the retail industry, including among supermarkets, warehouse clubs and food distributors, has resulted in an increasingly concentrated retail base and increased our credit exposure to certain customers. Our business could be materially adversely affected and suffer significant set-backs in sales and operating income from the loss of some of our larger customers or if our larger customers' plans, markets, and/or financial condition should change significantly.

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

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

Impairment charges could substantially affect our reported earnings in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. As of December 29, 2013, we had \$1.6 billion of goodwill, which represented approximately 16% of total assets.

Deterioration of economic conditions could negatively impact our business.

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

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

- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future;

- cause our lenders to depart from prior credit industry practice and make more difficult or expensive the granting of any technical or other waivers under our credit agreements to the extent we may seek them in the future;

- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts, non-performance by suppliers or counterparty failures negatively impacting our treasury operations;

- negatively impact global demand for our products, which could result in a reduction of sales, operating income and cash flows;

- decrease the value of our investments in equity and debt securities, including our company-owned life insurance and pension plan assets, which could result in higher pension cost and statutorily mandated funding requirements; and

- impair the financial viability of our insurers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table lists our material plants and other physical properties. Based on a five day week, our weekly domestic pork slaughter capacity was 565,000 head and our domestic packaged meats capacity was 62.4 million pounds, as of December 29, 2013. During the Transition Period, the average weekly capacity utilization for pork slaughter and packaged meats was 97% and 84%, respectively. We believe these properties are adequate and suitable for our needs.

Location	Segment	Operation
Smithfield Packing Plant Bladen County, North Carolina	Pork	Slaughtering and cutting hogs