

SEABOARD CORP /DE/
Form 10-Q
November 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-3390

Seaboard Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2260388
(I.R.S. Employer Identification No.)

9000 W. 67th Street, Shawnee Mission, Kansas

66202

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(Address of principal executive offices)

(Zip Code)

(913) 676-8800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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 (§ 232.405 of this chapter) 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

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a 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 .

There were 1,212,297 shares of common stock, \$1.00 par value per share, outstanding on October 31, 2011.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

*(Thousands of dollars except share and per share amounts)**(Unaudited)*

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net sales:				
Products (includes sales to affiliates of \$256,703, \$120,670, \$608,778 and \$363,891)	\$ 1,213,346	\$ 849,049	\$ 3,539,542	\$ 2,403,174
Services	234,758	231,029	718,313	681,659
Other	28,614	31,735	85,629	95,719
Total net sales	1,476,718	1,111,813	4,343,484	3,180,552
Cost of sales and operating expenses:				
Products	1,114,479	795,722	3,167,568	2,160,084
Services	222,339	196,379	663,831	584,637
Gain on sale of power generating facilities	(1,500)		(52,923)	
Other	24,935	25,738	73,013	78,776
Total cost of sales and operating expenses	1,360,253	1,017,839	3,851,489	2,823,497
Gross income	116,465	93,974	491,995	357,055
Selling, general and administrative expenses	49,476	52,332	157,765	146,700
Operating income	66,989	41,642	334,230	210,355
Other income (expense):				
Interest expense	(1,067)	(1,731)	(4,089)	(5,647)
Interest income	2,163	2,837	6,507	9,862
Interest income from affiliates	4,769	108	12,616	401
Income (loss) from affiliates	(2,677)	4,851	8,850	16,275
Other investment income (loss), net	(6,437)	7,819	(3,811)	8,704
Foreign currency gain (loss), net	(3,059)	5,552	4,086	2,623
Miscellaneous, net	(9,738)	(3,843)	(11,902)	(6,479)
Total other income (loss), net	(16,046)	15,593	12,257	25,739
Earnings before income taxes	50,943	57,235	346,487	236,094
Income tax expense	(15,854)	(17,752)	(81,341)	(56,591)
Net earnings	\$ 35,089	\$ 39,483	\$ 265,146	\$ 179,503
Less: Net loss attributable to noncontrolling interests	1,471	386	1,764	748
Net earnings attributable to Seaboard	\$ 36,560	\$ 39,869	\$ 266,910	\$ 180,251
Earnings per common share	\$ 30.07	\$ 32.74	\$ 219.52	\$ 146.93
Dividends declared per common share	\$	\$ 0.75	\$	\$ 2.25
Average number of shares outstanding	1,215,863	1,217,828	1,215,874	1,226,780

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Thousands of dollars)

(Unaudited)

	October 1, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,937	\$ 41,124
Short-term investments	300,203	332,205
Receivables, net of allowance	480,957	359,944
Inventories	658,051	533,761
Deferred income taxes	22,398	18,393
Deferred costs		84,141
Other current assets	114,693	115,844
Total current assets	1,627,239	1,485,412
Investments in and advances to affiliates	353,167	331,322
Net property, plant and equipment	777,568	701,131
Note receivable from affiliate	110,736	90,109
Goodwill	40,628	40,628
Intangible assets, net	19,559	19,746
Other assets	41,662	65,738
Total assets	\$ 2,970,559	\$ 2,734,086
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 104,000	\$ 78,729
Current maturities of long-term debt	36,724	1,697
Accounts payable	125,755	146,265
Deferred revenue	43,563	122,344
Deferred revenue from affiliates	17,571	38,719
Other current liabilities	270,398	250,441
Total current liabilities	598,011	638,195
Long-term debt, less current maturities	118,378	91,407
Deferred income taxes	59,395	75,695
Other liabilities	158,358	150,540
Total non-current and deferred liabilities	336,131	317,642
Stockholders' equity:		
Common stock of \$1 par value, Authorized 1,250,000 shares; issued and outstanding 1,215,279 and 1,215,879 shares	1,215	1,216
Accumulated other comprehensive loss	(129,452)	(123,907)
Retained earnings	2,163,650	1,897,897
Total Seaboard stockholders' equity	2,035,413	1,775,206
Noncontrolling interests	1,004	3,043
Total equity	2,036,417	1,778,249
Total liabilities and stockholders' equity	\$ 2,970,559	\$ 2,734,086

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

*(Thousands of dollars)**(Unaudited)*

	Nine Months Ended	
	October 1, 2011	October 2, 2010
Cash flows from operating activities:		
Net earnings	\$ 265,146	\$ 179,503
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	60,111	65,648
Income from affiliates	(8,850)	(16,275)
Other investment loss (income), net	3,811	(8,704)
Deferred income taxes	(17,558)	(1,148)
Pay-in-kind interest on note receivable from affiliate	(7,697)	
Gain on sale of power generating facilities	(52,923)	
Gain from sale of fixed assets	(485)	(2,573)
Fixed asset impairment charge	5,600	
Other	1,744	1,272
Changes in current assets and liabilities:		
Receivables, net of allowance	(82,946)	(53,182)
Inventories	(130,019)	26,152
Other current assets	60,650	(15,460)
Current liabilities, exclusive of debt	(83,914)	64,618
Other, net	19,065	12,134
Net cash from operating activities	31,735	251,985
Cash flows from investing activities:		
Purchase of short-term investments	(126,123)	(590,925)
Proceeds from the sale of short-term investments	139,941	402,625
Proceeds from the maturity of short-term investments	15,033	62,837
Acquisition of business, net of cash acquired		(5,578)
Purchase of long-term investments	(3,516)	
Investments in and advances to affiliates, net	(15,232)	(19,009)
Notes receivable issued to affiliate	(33,037)	
Principal payments received on notes from affiliate	212	
Capital expenditures	(150,263)	(77,897)
Proceeds from the sale of power generating facilities	59,603	
Proceeds from the sale of fixed assets	2,303	4,812
Other, net	692	2,159
Net cash from investing activities	(110,387)	(220,976)
Cash flows from financing activities:		
Notes payable to banks, net	25,271	(1,856)
Proceeds from the issuance of long-term debt	63,378	
Principal payments of long-term debt	(1,369)	(2,088)
Repurchase of common stock	(1,158)	(29,994)
Dividends paid		(2,756)
Other, net	261	238
Net cash from financing activities	86,383	(36,456)
Effect of exchange rate change on cash	2,082	1,012
Net change in cash and cash equivalents	9,813	(4,435)
Cash and cash equivalents at beginning of year	41,124	61,857
Cash and cash equivalents at end of period	\$ 50,937	\$ 57,422

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 Accounting Policies and Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Seaboard Corporation and its domestic and foreign subsidiaries (Seaboard). All significant intercompany balances and transactions have been eliminated in consolidation. Seaboard s investments in non-consolidated affiliates are accounted for by the equity method. The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of Seaboard for the year ended December 31, 2010 as filed in its Annual Report on Form 10-K. Seaboard s first three quarterly periods include approximately 13 weekly periods ending on the Saturday closest to the end of March, June and September. Seaboard s year-end is December 31.

The accompanying unaudited Condensed Consolidated Financial Statements include all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year. As Seaboard conducts its commodity trading business with third parties, consolidated subsidiaries and non-consolidated affiliates on an interrelated basis, gross margin on non-consolidated affiliates cannot be clearly distinguished without making numerous assumptions primarily with respect to mark-to-market accounting for commodity derivatives.

Notes Receivable from Affiliates

Seaboard has notes receivable from affiliates. Seaboard monitors the credit quality of these notes by obtaining and reviewing financial information for these affiliates on a monthly basis and by having Seaboard representatives serve on the Board of Directors of these affiliates.

Use of Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to allowance for doubtful accounts, valuation of inventories, impairment of long-lived assets, goodwill and other intangible assets, income taxes and accrued pension liability. Actual results could differ from those estimates.

Supplemental Non-Cash Transactions

As discussed in Note 9, Seaboard had a note receivable from an affiliate which accrues pay-in-kind interest income. Seaboard recognized \$2,629,000 and \$7,697,000 of non-cash, pay in-kind interest income for the three and nine months ended October 1, 2011, respectively, related to this note receivable.

Recent Accounting Standards Not Yet Adopted

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance to amend the requirements related to fair value measurement which changed the wording used to describe many requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. The amended guidance is effective for Seaboard on January 1, 2012. The adoption of this guidance is not expected to have a material impact on Seaboard's financial position or net earnings.

In June 2011, the FASB issued guidance to revise the manner in which entities present comprehensive income in the financial statements. The new guidance removes the footnote presentation option currently used by Seaboard and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. Seaboard will be required to make this change in presentation in the first quarter of 2012. The adoption of this guidance will not have an impact on Seaboard's financial position or net earnings.

In September 2011, the FASB issued guidance to allow entities the option of performing a qualitative assessment to test goodwill for impairment. This guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This guidance is effective for Seaboard on January 1, 2012 and early adoption is allowed. Seaboard will adopt this guidance on January 1, 2012. The adoption of this guidance will not have an impact on Seaboard's financial position or net earnings.

Note 2 Investments

Seaboard's short-term investments are treated as either available-for-sale securities or trading securities. All of Seaboard's available-for-sale and trading securities are classified as current assets as they are readily available to support Seaboard's current operating needs. Available-for-sale securities are recorded at their estimated fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income. Trading securities are recorded at their estimated fair value with unrealized gains and losses reflected in the statement of earnings.

As of October 1, 2011 and December 31, 2010, the available-for-sale investments primarily consisted of corporate bonds, enhanced cash mutual fund, money market funds and fixed rate municipal notes and bonds. At October 1, 2011, money market funds included \$34,553,000 denominated in Euros. At October 1, 2011 and December 31, 2010, amortized cost and estimated fair value were not materially different for these investments.

As of October 1, 2011, the trading securities primarily consisted of high yield debt securities. Unrealized (losses) gains related to trading securities for the three and nine months ended October 1, 2011 were \$(1,800,000) and \$(1,701,000), respectively, and \$1,292,000 and \$2,116,000 for the three and nine months ended October 2, 2010, respectively.

The following is a summary of the amortized cost and estimated fair value of short-term investments for both available-for-sale and trading securities at October 1, 2011 and December 31, 2010.

(Thousands of dollars)	2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate bonds	\$ 91,311	\$ 92,167	\$ 81,214	\$ 82,351
Enhanced cash mutual fund	60,542	60,630	60,256	60,302
Money market funds	58,003	58,003	110,164	110,164
Emerging markets debt mutual fund	17,693	16,410		
Fixed rate municipal notes and bonds	15,902	15,981	20,564	20,648
Collateralized mortgage obligations	14,487	14,590	12,329	12,380
U.S. Treasury securities	6,505	6,443	7,139	7,148
U.S. Government agency securities	6,393	6,375	10,142	10,184
Asset backed debt securities	3,825	3,823	2,847	2,848
Other	1,480	1,484	2,360	2,355
Total available-for-sale short-term investments	276,141	275,906	307,015	308,380
High yield trading debt securities	20,782	20,483	19,447	20,783
Other trading debt securities	4,019	3,814	2,807	3,042
Total available-for-sale and trading short-term investments	\$ 300,942	\$ 300,203	\$ 329,269	\$ 332,205

The following table summarizes the estimated fair value of fixed rate securities designated as available-for-sale classified by the contractual maturity date of the security as of October 1, 2011.

(Thousands of dollars)

2011

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Due within one year	\$	26,534
Due after one year through three years		66,873
Due after three years		20,943
Total fixed rate securities	\$	114,350

In addition to its short-term investments, Seaboard also has trading securities related to Seaboard's deferred compensation plans classified in other current assets on the Condensed Consolidated Balance Sheets. See Note 5 to the Condensed Consolidated Financial Statements for information on the types of trading securities held related to the deferred compensation plans.

Note 3 Inventories

The following is a summary of inventories at October 1, 2011 and December 31, 2010:

(Thousands of dollars)	October 1, 2011	December 31, 2010
At lower of LIFO cost or market:		
Live hogs and materials	\$ 223,768	\$ 200,600
Fresh pork and materials	30,435	24,779
	254,203	225,379
LIFO adjustment	(57,055)	(24,085)
Total inventories at lower of LIFO cost or market	197,148	201,294
At lower of FIFO cost or market:		
Grains and oilseeds	295,289	203,232
Sugar produced and in process	57,028	50,190
Other	57,564	44,013
Total inventories at lower of FIFO cost or market	409,881	297,435
Grain, flour and feed at lower of weighted average cost or market	51,022	35,032
Total inventories	\$ 658,051	\$ 533,761

As of October 1, 2011, Seaboard had \$1,709,000 recorded in grain inventories related to its commodity trading business that are committed to various customers in foreign countries for which customer contract performance is a heightened concern. If Seaboard is unable to collect amounts from these customers as currently estimated or Seaboard is forced to find other customers for a portion of this inventory, it is possible that Seaboard could incur additional write-downs in the value of this inventory if Seaboard is not successful in selling at the current carrying value. During the third quarter of 2011, significant issues occurred with certain customers resulting in write-offs of material amounts of inventory for contract non-performance, which amounts were both previously not considered at risk and also amounts previously disclosed at risk. For the three and nine months of 2011, Seaboard incurred net write-downs of \$10,650,000 and \$13,992,000, respectively, related to these types of inventories.

Note 4 Income Taxes

Seaboard's tax returns are regularly audited by federal, state and foreign tax authorities, which may result in adjustments. Seaboard's 2006-2009 U.S. income tax returns are currently under IRS examination. There have not been any material changes in unrecognized income tax benefits since December 31, 2010. Interest related to unrecognized tax benefits and penalties was not material for the nine months ended October 1, 2011.

Note 5 Derivatives and Fair Value of Financial Instruments

U.S. GAAP discusses valuation techniques, such as the market approach (prices and other relevant information generated by market conditions involving identical or comparable assets or liabilities), the income approach (techniques to convert future amounts to single present amounts based on market expectations including present value techniques and option-pricing), and the cost approach (amount that would be required to replace the service capacity of an asset which is often referred to as replacement cost). U.S. GAAP utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following table shows assets and liabilities measured at fair value on a recurring basis as of October 1, 2011 and also the level within the fair value hierarchy used to measure each category of assets. Seaboard uses the

end of the reporting period to determine if there were any transfers between levels. There were no transfers between levels that occurred in the first nine months of 2011. The trading securities classified as other current assets below are assets held for Seaboard's deferred compensation plans.

(Thousands of dollars)	Balance October 1, 2011	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities - short-term investments:				
Corporate bonds	\$ 92,167	\$	\$ 92,167	\$
Enhanced cash mutual fund	60,630	60,630		
Money market funds	58,003	58,003		
Emerging markets debt	16,410	16,410		
Fixed rate municipal notes and bonds	15,981		15,981	
Collateralized mortgage obligations	14,590		14,590	
U.S. Treasury securities	6,443		6,443	
U.S. Government agency securities	6,375		6,375	
Asset backed debt securities	3,823		3,823	
Other	1,484		1,484	
Trading securities - short-term investments:				
High yield debt securities	20,483		20,483	
Other debt securities	3,814		3,814	
Trading securities - other current assets:				
Domestic equity securities	11,803	11,803		
Foreign equity securities	7,107	3,718	3,389	
Money market funds	3,857	3,857		
Fixed income mutual funds	2,809	2,809		
U.S. Government agency securities	2,174		2,174	
U.S. Treasury securities	1,926		1,926	
Other	1,943	1,883	60	
Derivatives:				
Commodities(1)	8,475	8,475		
Interest rate swaps				
Foreign currencies	13,884		13,884	
Total Assets	\$ 354,181	\$ 167,588	\$ 186,593	\$
Liabilities:				
Derivatives:				
Commodities(1)	\$ 32,092	\$ 32,092	\$	\$
Interest rate swaps	10,533		10,533	
Foreign currencies	938		938	
Total Liabilities	\$ 43,563	\$ 32,092	\$ 11,471	\$

(1) Seaboard's commodities derivative assets and liabilities are presented in the Condensed Consolidated Balance Sheets on a net basis, including netting the derivatives with the related margin accounts. As of October 1, 2011, the commodity derivatives had a margin account balance of \$29,169,000 resulting in a net other current asset on the Condensed Consolidated Balance Sheets of \$5,552,000.

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The following table shows assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and also the level within the fair value hierarchy used to measure each category of assets.

(Thousands of dollars)	Balance December 31, 2010	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities short-term investments:				
Money market funds	\$ 110,164	\$ 110,164		\$
Corporate bonds	82,351		82,351	
Enhanced cash mutual fund	60,302	60,302		
Fixed rate municipal notes and bonds	20,648		20,648	
Collateralized mortgage obligations	12,380		12,380	
U.S. Government agency securities	10,184		10,184	
U.S. Treasury securities	7,148		7,148	
Asset backed debt securities	2,848		2,848	
Other	2,355		2,355	
Trading securities- short term investments:				
High yield debt securities	20,783		20,783	
Other debt securities	3,042		3,042	
Trading securities other current assets:				
Domestic equity securities	13,332	13,332		
Foreign equity securities	8,157	4,131	4,026	
Fixed income mutual funds	3,758	3,758		
Money market funds	3,208	3,208		
U.S. Treasury securities	2,732		2,732	
U.S. Government agency securities	1,371		1,371	
Other	183	157	26	
Derivatives:				
Commodities(1)	15,966	15,958	8	
Interest rate swaps	1,410		1,410	
Foreign currencies	120		120	
Total Assets	\$ 382,442			