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SEABOARD CORP /DE/  
Form 10-Q  
May 06, 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 April 2, 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 04-2260388  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

9000 W. 67th Street, Shawnee Mission, Kansas 66202  
(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

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accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☒  
 Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)  
 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 1,215,879 shares of common stock, \$1.00 par value per share, outstanding on April 22, 2011.

Total pages in filing - 22 pages

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## 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 |                  |
|---|--------------------|------------------|
|   | April 2,<br>2011   | April 3,<br>2010 |
| Net sales:  |                    |                  |
| Products (includes sales to affiliates<br>of \$162,268 and \$125,830) | \$1,197,622        | \$ 772,587       |
| Services  | 238,212            | 214,720          |
| Other   | 32,345             | 32,969           |
| Total net sales   | 1,468,179          | 1,020,276        |
| Cost of sales and operating expenses:                                 |                    |                  |
| Products  | 1,049,797          | 691,156          |
| Services  | 206,218            | 185,728          |
| Other   | 27,058             | 27,376           |
| Total cost of sales and operating expenses                            | 1,283,073          | 904,260          |
| Gross income  | 185,106            | 116,016          |
| Selling, general and administrative expenses                          | 54,830             | 48,550           |
| Operating income  | 130,276            | 67,466           |
| Other income (expense):   |                    |                  |
| Interest expense  | (1,516)            | (2,316)          |
| Interest income   | 2,297              | 3,317            |
| Interest income from affiliates                                       | 3,833              | 139              |
| Income from affiliates  | 6,162              | 4,888            |
| Other investment income, net  | 2,340              | 3,044            |
| Foreign currency gain, net  | 4,764              | 38               |
| Miscellaneous, net  | 788                | 194              |
| Total other income, net   | 18,668             | 9,304            |
| Earnings before income taxes  | 148,944            | 76,770           |
| Income tax expense  | (32,251)           | (14,107)         |
| Net earnings  | \$ 116,693         | \$ 62,663        |

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|   |            |           |
|---|------------|-----------|
| Less: Net loss attributable to noncontrolling interests | 171        | 115       |
| Net earnings attributable to Seaboard                   | \$ 116,864 | \$ 62,778 |
| Earnings per common share                               | \$ 96.11   | \$ 50.84  |
| Dividends declared per common share                     | \$ -       | \$ 0.75   |
| Average number of shares outstanding                    | 1,215,879  | 1,234,710 |

See accompanying notes to condensed consolidated financial statements.

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## SEABOARD CORPORATION AND SUBSIDIARIES Condensed Consolidated Balance Sheets (Thousands of dollars) (Unaudited)

|   | April 2,<br>2011 | December 31,<br>2010 |
|---|------------------|----------------------|
| <b>Assets</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 34,463        | \$ 41,124            |
| Short-term investments  | 300,210          | 332,205              |
| Receivables, net of allowance   | 456,052          | 359,944              |
| Inventories   | 547,420          | 533,761              |
| Deferred income taxes   | 18,497           | 18,393               |
| Deferred costs  | -                | 84,141               |
| Other current assets  | 142,927          | 115,844              |
| Total current assets  | 1,499,569        | 1,485,412            |
| Investments in and advances to affiliates   | 341,020          | 331,322              |
| Net property, plant and equipment   | 718,546          | 701,131              |
| Note receivable from affiliate  | 92,631           | 90,109               |
| Goodwill  | 40,628           | 40,628               |
| Intangible assets, net  | 19,684           | 19,746               |
| Other assets  | 67,701           | 65,738               |
| Total assets  | \$2,779,779      | \$2,734,086          |
| <b>Liabilities and Stockholders' Equity</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Notes payable to banks  | \$ 120,961       | \$ 78,729            |
| Current maturities of long-term debt  | 1,711            | 1,697                |
| Accounts payable  | 120,332          | 146,265              |
| Deferred revenue  | 41,160           | 122,344              |
| Deferred revenue from affiliates  | 34,537           | 38,719               |
| Other current liabilities   | 236,487          | 250,441              |
| Total current liabilities   | 555,188          | 638,195              |
| Long-term debt, less current maturities   | 106,640          | 91,407               |
| Deferred income taxes   | 68,605           | 75,695               |
| Other liabilities   | 154,604          | 150,540              |
| Total non-current and deferred liabilities  | 329,849          | 317,642              |
| Stockholders' equity:   |                  |                      |
| Common stock of \$1 par value,<br>Authorized 1,250,000 shares;<br>issued and outstanding 1,215,879 shares | 1,216            | 1,216                |
| Accumulated other comprehensive loss  | (124,060)        | (123,907)            |

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|  |             |             |
|--|-------------|-------------|
| Retained earnings                          | 2,014,761   | 1,897,897   |
| Total Seaboard stockholders' equity        | 1,891,917   | 1,775,206   |
| Noncontrolling interests                   | 2,825       | 3,043       |
| Total equity                               | 1,894,742   | 1,778,249   |
| Total liabilities and stockholders' equity | \$2,779,779 | \$2,734,086 |

See accompanying notes to condensed consolidated financial statements.

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## SEABOARD CORPORATION AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows (Thousands of dollars) (Unaudited)

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | April 2,<br>2011   | April 3,<br>2010 |
| Cash flows from operating activities:                                    |                    |                  |
| Net earnings   | \$ 116,693         | \$ 62,663        |
| Adjustments to reconcile net earnings to cash from operating activities: |                    |                  |
| Depreciation and amortization  | 20,274             | 21,853           |
| Income from affiliates   | (6,162)            | (4,888)          |
| Other investment income, net   | (2,340)            | (3,044)          |
| Deferred income taxes  | (6,897)            | 478              |
| Pay-in-kind interest on note receivable from affiliate                   | (2,521)            | -                |
| Other  | 225                | (519)            |
| Changes in current assets and liabilities:                               |                    |                  |
| Receivables, net of allowance  | (96,552)           | (47,592)         |
| Inventories  | (14,261)           | 66,404           |
| Other current assets   | 58,418             | (23,145)         |
| Current liabilities, exclusive of debt                                   | (125,463)          | 1,873            |
| Other, net   | 3,701              | 3,458            |
| Net cash from operating activities                                       | (54,885)           | 77,541           |
| Cash flows from investing activities:                                    |                    |                  |
| Purchase of short-term investments                                       | (38,664)           | (187,625)        |
| Proceeds from the sale of short-term investments                         | 67,000             | 142,788          |
| Proceeds from the maturity of short-term investments                     | 3,985              | 11,150           |
| Investments in and advances to affiliates, net                           | (3,637)            | (7,652)          |
| Capital expenditures   | (39,029)           | (16,342)         |
| Other, net   | 99                 | 1,145            |
| Net cash from investing activities                                       | (10,246)           | (56,536)         |
| Cash flows from financing activities:                                    |                    |                  |
| Notes payable to banks, net  | 42,232             | (14,301)         |
| Proceeds from the issuance of long-term debt                             | 15,345             | -                |
| Principal payments of long-term debt                                     | (96)               | (843)            |
| Repurchase of common stock   | -                  | (7,149)          |
| Dividends paid   | -                  | (925)            |
| Other, net   | 53                 | 80               |
| Net cash from financing activities                                       | 57,534             | (23,138)         |
| Effect of exchange rate change on cash                                   | 936                | (109)            |
| Net change in cash and cash equivalents                                  | (6,661)            | (2,242)          |
| Cash and cash equivalents at beginning of year                           | 41,124             | 61,857           |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 34,463 | \$ 59,615 |
|--|-----------|-----------|

See accompanying notes to condensed consolidated financial statements.

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## 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.

## Note Receivable from Affiliate

Seaboard has a note receivable from an affiliate (Butterball, LLC) in the amount of \$92,631,000 at April 2, 2011. Seaboard monitors the credit quality of this note receivable by obtaining and reviewing financial information for this affiliate on a monthly basis and by having Seaboard representatives serve on the Board of Directors of this affiliate. Seaboard recognized \$2,521,000 of pay-in-kind interest in the first quarter of 2011 related to this note receivable.

## Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles 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.

Note 2- Investments

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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 April 2, 2011 and December 31, 2010, the available-for-sale investments primarily consisted of money market funds, fixed rate municipal notes and bonds, corporate bonds, fixed income mutual funds and U.S. Government obligations. At April 2, 2011, money market funds included \$73,031,000 denominated in Euros. At April 2, 2011 and December 31, 2010, amortized cost and estimated fair value were not materially different for these investments.

As of April 2, 2011, the trading securities primarily consisted of high yield debt securities. Unrealized net gains related to trading securities were \$330,000 and \$87,000 for the three months ended April 2, 2011 and April 3, 2010, respectively.

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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 April 2, 2011 and December 31, 2010.

| (Thousands of dollars)                                      | 2011           |            | 2010           |            |
|---|----------------|------------|----------------|------------|
|   | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Corporate bonds   | \$ 92,006      | \$ 93,143  | \$ 86,182      | \$ 87,401  |
| Money market funds  | 74,269         | 74,269     | 110,164        | 110,164    |
| Fixed income mutual funds                                   | 60,334         | 60,490     | 60,256         | 60,302     |
| Fixed rate municipal notes and bonds                        | 20,819         | 20,927     | 20,564         | 20,648     |
| U.S. Government agency securities                           | 15,849         | 15,750     | 17,503         | 17,514     |
| Variable rate demand notes                                  | 3,000          | 3,000      | -              | -          |
| U.S. Treasury securities                                    | 2,446          | 2,445      | 7,139          | 7,148      |
| Asset backed debt securities                                | 2,364          | 2,364      | 2,847          | 2,848      |
| Other   | 2,360          | 2,364      | 2,360          | 2,355      |
| Total available-for-sale short-term investments             | 273,447        | 274,752    | 307,015        | 308,380    |
| High yield trading debt securities                          | 20,369         | 21,848     | 19,447         | 20,783     |
| Other trading debt securities                               | 3,317          | 3,610      | 2,807          | 3,042      |
| Total available-for-sale and trading short term investments | \$297,133      | \$300,210  | \$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 April 2, 2011.

| (Thousands of dollars)                 | 2011      |
|--|-----------|
| Due within one year                    | \$ 19,515 |
| Due after one year through three years | 66,724    |
| Due after three years                  | 21,366    |
| Total fixed rate securities            | \$107,605 |

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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.

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### Note 3 - Inventories

The following is a summary of inventories at April 2, 2011 and December 31, 2010:

| (Thousands of dollars)  | April 2, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| At lower of LIFO cost or market:                                  |               |                   |
| Live hogs and materials   | \$208,870     | \$200,600         |
| Fresh pork and materials  | 33,077        | 24,779            |
|   | 241,947       | 225,379           |
| LIFO adjustment   | (32,975)      | (24,085)          |
| Total inventories at lower of LIFO cost or market                 | 208,972       | 201,294           |
| At lower of FIFO cost or market:                                  |               |                   |
| Grains and oilseeds   | 211,380       | 203,232           |
| Sugar produced and in process                                     | 51,431        | 50,190            |
| Other   | 41,561        | 44,013            |
| Total inventories at lower of FIFO cost or market                 | 304,372       | 297,435           |
| Grain, flour and feed at lower of weighted average cost or market | 34,076        | 35,032            |
| Total inventories   | \$547,420     | \$533,761         |

As of April 2, 2011, Seaboard had \$4,200,000 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 a material write-down in the value of this inventory if Seaboard is not successful in selling at the current carrying value. During the first quarter of 2011, Seaboard incurred a write-down of \$1,698,000 (with no tax benefit recognized), or \$1.40 per share, 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 U.S. federal income tax returns have been reviewed through the 2004 tax year. The statute of limitations has expired on the 2005 tax year. 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 three months ended April 2, 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

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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.

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The following table shows assets and liabilities measured at fair value on a recurring basis as of April 2, 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 quarter of 2011. The trading securities classified as other current assets below are assets held for Seaboard's deferred compensation plans.

|   | Balance<br>April 2,<br>2011 | Level 1 | Level 2   | Level 3 |
|---|-----------------------------|---------|-----------|---------|
| (Thousands of dollars)                                  |                             |         |           |         |
| Assets:   |                             |         |           |         |
| Available-for-sale securities - short-term investments: |                             |         |           |         |
| Corporate bonds   | \$ 93,143                   | \$ -    | \$ 93,143 | \$ -    |
| Money market funds                                      | 74,269                      | 74,269  | -         | -       |
| Fixed income mutual funds                               | 60,490                      | 60,490  | -         | -       |
| Fixed rate municipal notes and bonds                    | 20,927                      | -       | 20,927    | -       |
| U.S. Government agency securities                       | 15,750                      | -       | 15,750    | -       |
| Variable rate demand notes                              | 3,000                       | -       | 3,000     | -       |
| U.S. Treasury securities                                | 2,445                       | -       | 2,445     | -       |
| Asset backed debt securities                            | 2,364                       | -       | 2,364     | -       |
| Other   | 2,364                       | -       | 2,364     | -       |
| Trading securities - short-term investments:            |                             |         |           |         |
| High yield debt securities                              | 21,848                      | -       | 21,848    | -       |
| Other debt securities                                   | 3,610                       | -       | 3,610     | -       |
| Trading securities - other current assets:              |                             |         |           |         |
| Domestic equity securities                              | 14,857                      | 14,857  | -         | -       |
| Foreign equity securities                               | 9,222                       | 4,784   | 4,438     | -       |
| Fixed income mutual funds                               | 4,936                       | 4,936   | -         | -       |
| Money market funds                                      | 3,494                       | 3,494   | -         | -       |
| U.S. Treasury securities                                | 2,257                       | -       | 2,257     | -       |
| U.S. Government agency securities                       | 1,972                       | -       | 1,972     | -       |
| Other   | 179                         | 154     | 25        | -       |
| Derivatives:  |                             |         |           |         |



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|                     |           |           |           |      |
|---------------------|-----------|-----------|-----------|------|
| Commodities         | 16,602    | 16,475    | 127       | -    |
| Interest rate swaps | 1,977     | -         | 1,977     | -    |
| Foreign currencies  | 22        | -         | 22        | -    |
| Total Assets        | \$355,728 | \$179,459 | \$176,269 | \$ - |

Liabilities:

Derivatives:

|                     |           |           |          |      |
|---------------------|-----------|-----------|----------|------|
| Commodities(1)      | \$ 14,917 | \$ 14,917 | \$ -     | \$ - |
| Interest rate swaps | 497       | -         | 497      | -    |
| Foreign currencies  | 7,672     | -         | 7,672    | -    |
| Total Liabilities   | \$ 23,086 | \$ 14,917 | \$ 8,169 | \$ - |

(1) Excludes \$11,912 of option proceeds resulting in a net liability of \$3,005 as of April 2, 2011.

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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<br>December 31, |           |           |         |
|---|-------------------------|-----------|-----------|---------|
|   | 2010                    | Level 1   | Level 2   | Level 3 |
| <b>Assets:</b>  |                         |           |           |         |
| Available-for-sale securities - short-term investments: |                         |           |           |         |
| Money market funds                                      | \$110,164               | \$110,164 | \$ -      | \$ -    |
| Corporate bonds   | 87,401                  | -         | 87,401    | -       |
| Fixed income mutual funds                               | 60,302                  | 60,302    | -         | -       |
| Fixed rate municipal notes and bonds                    | 20,648                  | -         | 20,648    | -       |
| U.S. Government agency securities                       | 17,514                  | -         | 17,514    | -       |
| 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        | -       |
| <b>Derivatives:</b>                                     |                         |           |           |         |
| Commodities   | 15,966                  | 15,958    | 8         | -       |
| Interest rate swaps                                     | 1,410                   | -         | 1,410     | -       |
| Foreign currencies                                      | 120                     | -         | 120       | -       |
| Total Assets  | \$382,442               | \$211,010 | \$171,432 | \$ -    |
| <b>Liabilities:</b>                                     |                         |           |           |         |
| <b>Derivatives:</b>                                     |                         |           |           |         |
| Commodities (1)   | \$ 9,170                | \$ 9,170  | \$ -      | \$ -    |
| Interest rate swaps                                     | 1,161                   | -         | 1,161     | -       |
| Foreign currencies                                      | 11,652                  | -         | 11,652    | -       |
| Total Liabilities                                       | \$21,983                | \$ 9,170  | \$ 12,813 | \$ -    |

(1) Excludes \$5,163 of option proceeds resulting in a net liability of

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\$4,007 as of December 31, 2010.

Financial instruments consisting of cash and cash equivalents, net receivables, notes payable, and accounts payable are carried at cost, which approximates fair value, as a result of the short-term nature of the instruments.

The fair value of long-term debt is estimated by comparing interest rates for debt with similar terms and maturities. The amortized cost and estimated fair values of investments and long-term debt at April 2, 2011 and December 31, 2010 are presented below.

| (Thousands of dollars)                             | 2011              |               | 2010              |               |
|--|-------------------|---------------|-------------------|---------------|
|  | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Short-term investments,<br>available-for-sale      | \$273,447         | \$274,752     | \$307,015         | \$308,380     |
| Short-term investments,<br>trading debt securities | 23,686            | 25,458        | 22,254            | 23,825        |
| Long-term debt                                     | 108,351           | 111,343       | 93,104            | 96,438        |

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While management believes its derivatives are primarily economic hedges of its firm purchase and sales contracts or anticipated sales contracts, Seaboard does not perform the extensive record-keeping required to account for these types of transactions as hedges for accounting purposes. Since these derivatives and interest rate exchange agreements discussed below, are not accounted for as hedges, fluctuations in the related commodity prices, currency exchange rates and interest rates could have a material impact on earnings in any given period. The nature of Seaboard's market risk exposure has not changed materially since December 31, 2010.

### Commodity Instruments

Seaboard uses various grain, meal, hog, and energy resource related futures and options to manage its risk to price fluctuations for raw materials and other inventories, finished product sales and firm sales commitments. At April 2, 2011, Seaboard had open net derivative contracts to purchase 5,854,000 bushels of grain, 3,240,000 pounds of hogs, 91,000 tons of soybean meal and 22,080,000 pounds of soybean oil and open net derivative contracts to sell 4,032,000 gallons of heating oil. At December 31, 2010, Seaboard had open net derivative contracts to purchase 5,880,000 bushels of grain, 2,900 tons of soybean meal and 43,240,000 pounds of hogs and open net derivative contracts to sell 1,806,000 gallons of heating oil. From time to time, Seaboard may enter into speculative derivative transactions not directly related to its raw material requirements. Commodity derivatives are recorded at fair value with any changes in fair value being marked to market as a component of cost of sales on the Condensed Consolidated Statements of Earnings.

### Foreign Currency Exchange Agreements

Seaboard enters into foreign currency exchange agreements to manage the foreign currency exchange rate risk with respect to certain transactions denominated in foreign currencies. Foreign exchange agreements that were primarily related to the underlying commodity transaction were recorded at fair value with changes in value marked to market as a component of cost of sales on the Condensed

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Consolidated Statements of Earnings. Foreign exchange agreements that were not related to an underlying commodity transaction were recorded at fair value with changes in value marked to market as a component of foreign currency gain (loss) on the Condensed Consolidated Statements of Earnings.

At April 2, 2011, Seaboard had trading foreign exchange contracts to cover its firm sales and purchase commitments and related trade receivables and payables with net notional amounts of \$209,246,000 primarily related to the South African Rand.

At December 31, 2010, Seaboard had trading foreign exchange contracts to cover its firm sales and purchase commitments and related trade receivables and payables with net notional amounts of \$183,042,000 primarily related to the South African Rand.

### Interest Rate Exchange Agreements

In May 2010, Seaboard entered into three ten-year interest rate exchange agreements which involve the exchange of fixed-rate and variable-rate interest payments over the life of the agreements without the exchange of the underlying notional amounts to mitigate the effects of fluctuations in interest rates on variable rate debt. Seaboard pays a fixed rate and receives a variable rate of interest on three notional amounts of \$25,000,000 each. In August 2010, Seaboard entered into another ten-year interest rate exchange agreement with a notional amount of \$25,000,000 that has terms similar to those for the other three interest rate exchange agreements referred to above. While Seaboard has certain variable rate debt, these interest rate exchange agreements do not qualify as hedges for accounting purposes. Accordingly, the changes in fair value of these agreements are recorded in Miscellaneous, net in the Condensed Consolidated Statement of Earnings.

### Counterparty Credit Risk

Seaboard is subject to counterparty credit risk related to its foreign currency exchange agreements and interest rate swaps, should the counterparties fail to perform according to the terms of the contracts. Seaboard's foreign currency exchange agreements have a maximum amount of loss due to credit risk in the amount of \$22,000 with two counterparties. Seaboard's interest rate swaps have a maximum amount of loss due to credit risk in the amount of \$1,977,000 with two counterparties. Seaboard does not hold any collateral related to these agreements.

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The following table provides the amount of gain or (loss) recognized for each type of derivative and where it was recognized in the Condensed Consolidated Statement of Earnings for the three months ended April 2, 2011 and April 3, 2010.

(Thousands of dollars)

|             |                  | April 2, 2011  | April 3, 2010  |
|-------------|------------------|----------------|----------------|
|             | Location of Gain | Amount of Gain | Amount of Gain |
|             | or (Loss)        | or (Loss)      | or (Loss)      |
|             | Recognized       | Recognized     | Recognized     |
|             | in Income        | in Income      | in Income      |
| Commodities | Cost of sales    | \$13,986       | \$16,068       |

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|                    |                    |       |         |
|--------------------|--------------------|-------|---------|
| Foreign currencies | Cost of sales      | 8,787 | (4,294) |
| Foreign currencies | Foreign currency   | (136) | (25)    |
| Interest rate      | Miscellaneous, net | 519   | -       |

The following table provides the fair value of each type of derivative held as of April 2, 2011 and December 31, 2010 and where each derivative is included on the Condensed Consolidated Balance Sheets.

| (Thousands of dollars) |                        | Asset Derivatives |                   | Liability Derivatives     |                          |
|------------------------|------------------------|-------------------|-------------------|---------------------------|--------------------------|
|                        | Balance Sheet Location | Fair Value        |                   | Balance Sheet Location    | Fair Value April 2, 2011 |
|                        |                        | April 2, 2011     | December 31, 2010 |                           |                          |
| Commodities            | Other current assets   | \$16,602          | \$15,966          | Other current liabilities | \$14,966                 |
| Foreign currencies     | Other current assets   | 22                | 120               | Other current liabilities | 7,600                    |
| Interest rate          | Other current assets   | 1,977             | 1,410             | Other current liabilities | 4,000                    |