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SEABOARD CORP /DE/  
Form 10-Q  
November 03, 2006

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 September 30, 2006

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 is a large  
accelerated filer, an accelerated filer, or a non-accelerated filer.  
See definition of "accelerated filer and large accelerated filer" in  
Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [  ] Accelerated filer [  ]

Non-accelerated filer [  ]

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 1,261,367.24 shares of common stock, \$1.00 par value  
per share, outstanding on October 30, 2006.

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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 per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales:				
Products	\$ 463,853	\$ 451,247	\$1,388,953	\$1,542,199
Services	193,108	164,387	546,742	488,143
Other	21,421	21,145	67,197	56,726
Total net sales	678,382	636,779	2,002,892	2,087,068
Cost of sales and operating expenses:				
Products	393,605	384,128	1,186,659	1,313,989
Services	150,721	133,414	430,333	381,486
Other	19,279	17,831	58,061	47,126
Total cost of sales and operating expenses	563,605	535,373	1,675,053	1,742,601
Gross income	114,777	101,406	327,839	344,467
Selling, general and administrative expenses	39,109	36,023	113,246	99,856
Operating income	75,668	65,383	214,593	244,611
Other income (expense):				
Interest expense	(4,299)	(5,206)	(14,633)	(16,810)
Interest income	4,875	3,729	16,406	9,985
Income (loss) from foreign affiliates	455	235	2,484	(1,509)
Minority and other noncontrolling interests	(1,803)	(2,118)	(4,925)	(2,590)
Foreign currency gains (losses), net	(1,898)	(439)	515	(380)
Loss from the sale of a portion of operations	-	27	-	(1,746)
Miscellaneous, net	1,480	4,385	7,651	4,691
Total other income (expense), net	(1,190)	613	7,498	(8,359)
Earnings before income taxes	74,478	65,996	222,091	236,252
Income tax expense	(13,289)	(13,406)	(40,172)	(52,401)
Net earnings	\$ 61,189	\$ 52,590	\$ 181,919	\$ 183,851
Earnings per common share				
Basic	\$ 48.51	\$ 41.90	\$ 144.22	\$ 146.49
Diluted	\$ 48.51	\$ 41.69	\$ 144.22	\$ 146.24
Weighted average shares outstanding				
Basic	1,261,367	1,255,123	1,261,367	1,255,077
Diluted	1,261,367	1,261,367	1,261,367	1,257,151
Dividends declared per common share	\$ 0.75	\$ 0.75	\$ 2.25	\$ 2.25

See notes to condensed consolidated financial statements.

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

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,940	\$ 34,622
Short-term investments	404,724	377,874
Receivables, net	246,773	223,024
Inventories	305,751	331,133
Deferred income taxes	11,884	9,743
Other current assets	62,697	70,814
Total current assets	1,065,769	1,047,210
Investments in and advances to foreign affiliates	41,256	39,992
Net property, plant and equipment	623,207	626,580
Goodwill	28,372	28,372
Intangible assets, net	29,100	30,120
Other assets	50,776	44,047
Total assets	\$1,838,480	\$1,816,321
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable to banks	\$ 7,530	\$ 92,938
Current maturities of long-term debt	72,112	61,415
Accounts payable	90,907	112,177
Other current liabilities	157,036	152,859
Total current liabilities	327,585	419,389
Long-term debt, less current maturities	139,200	201,063
Deferred income taxes	125,140	124,749
Other liabilities	52,998	57,216
Total non-current and deferred liabilities	317,338	383,028
Minority and other noncontrolling interests	37,910	36,034
Stockholders' equity:		
Common stock of \$1 par value, Authorized 4,000,000 shares; issued and outstanding 1,261,367 shares	1,261	1,261
Additional paid-in capital	21,574	21,574
Accumulated other comprehensive loss	(54,329)	(53,025)
Retained earnings	1,187,141	1,008,060
Total stockholders' equity	1,155,647	977,870
Total liabilities and stockholders' equity	\$1,838,480	\$1,816,321

See notes to condensed consolidated financial statements.

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

	September 30, 2006	October 1, 2005
Nine Months Ended		
Cash flows from operating activities:		
Net earnings	\$ 181,919	\$ 183,851
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	52,753	47,859
Other investment income, net	(1,427)	(1,535)
Loss (income) from foreign affiliates	(2,484)	1,509

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Put option value	(1,900)	(800)
Minority and noncontrolling interest	4,925	2,590
Loss from the sale of a portion of operations	-	1,746
Deferred income taxes	(104)	(1,709)
Gain from sale of fixed assets	(708)	(686)
Changes in current assets and liabilities:		
Receivables, net of allowance	(26,420)	37,246
Inventories	23,865	(28,184)
Other current assets	8,950	(3,745)
Current liabilities, exclusive of debt	(16,504)	19,956
Other, net	(5,602)	5,887
Net cash from operating activities	217,263	263,985
Cash flows from investing activities:		
Purchase of short-term investments	(2,261,175)	(488,938)
Proceeds from the sale or maturity of short-term investments	2,236,460	361,008
Investments in and advances to foreign affiliates, net	2,004	245
Capital expenditures	(51,645)	(43,208)
Acquisition of business	-	(47,540)
Proceeds from the sale of a portion of operations	-	25,821
Proceeds from the sale of fixed assets	2,026	2,576
Other, net	(1,667)	3,412
Net cash from investing activities	(73,997)	(186,624)
Cash flows from financing activities:		
Notes payable to banks, net	(85,408)	194
Principal payments of long-term debt	(51,182)	(37,937)
Repurchase of minority interest in a controlled subsidiary	-	(485)
Dividends paid	(2,838)	(2,824)
Other, net	(4,395)	(1,187)
Net cash from financing activities	(143,823)	(42,239)
Effect of exchange rate change on cash	(125)	342
Net change in cash and cash equivalents	(682)	35,464
Cash and cash equivalents at beginning of year	34,622	14,620
Cash and cash equivalents at end of period	\$ 33,940	\$ 50,084

See 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-controlled 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, 2005 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.

Use of Estimates

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The preparation of the 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Interest Rate Exchange Agreements

During the second quarter of 2006, Seaboard terminated all interest rate exchange agreements with a total notional value of \$150,000,000. Seaboard made payments in the amount of \$1,028,000 to unwind these swaps. These interest rate exchange agreements did not qualify as hedges for accounting purposes. During the nine months ended September 30, 2006, Seaboard recorded net gains of \$3,374,000 related to these agreements compared to gains of \$3,101,000 and \$1,713,000 during the three and nine months ended October 1, 2005, respectively. The gains and losses are included in miscellaneous, net on the Condensed Consolidated Statements of Earnings and reflect changes in fair market value, net of interest paid or received. In addition, during the nine months ended September 30, 2006, Seaboard made net payments of \$909,000 compared to payments made of \$1,162,000 and \$3,585,000 for the three and nine months ended October 1, 2005, respectively, resulting from the difference between the fixed rate paid and variable rate received on these agreements.

### New Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes", which defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. FIN 48 also prescribes a method for computing the tax benefit of such tax positions to recognize in the financial statements. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Seaboard is currently assessing the impacts of adoption of FIN 48 on its results of operations and its financial position and will be required to adopt FIN 48 as of January 1, 2007.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 108 (SAB 108), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. In SAB 108, the SEC staff established an approach that is commonly referred to as a "dual approach" because it now requires quantification of errors under both the iron curtain and the roll-over methods. For Seaboard, SAB 108 is effective for the fiscal year ending December 31, 2006. The adoption of SAB 108 is not expected to have any effect on Seaboard's financial position, net earnings or prior year financial statements.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements". This statement establishes a single authoritative definition of fair value,

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sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. SFAS 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". For Seaboard, SFAS 157 is effective for the fiscal year beginning January 1, 2008. Management is currently evaluating this standard to determine its impact, if any, on Seaboard.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This statement requires companies to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plan(s) with the offset to accumulated other comprehensive income, a component of stockholders' equity. The funded status amount will be measured as the difference between the fair value of plan assets and the projected benefit obligation. This statement also requires that previously disclosed but unrecognized gains/losses, prior service costs/credits, and transition assets/obligations be recognized at adoption as a component of shareholders' equity in accumulated other comprehensive income. For Seaboard, SFAS 158 is effective for the fiscal year ending December 31, 2006 and will be adopted in the fourth quarter of 2006. As the December 31, 2006 pension liabilities have not yet been calculated and related assumptions not yet established, the actual amount of the effect of adopting SFAS 158 cannot yet be determined. However, based on the December 31, 2005 pension liabilities and related assumptions, the adoption of SFAS 158 would increase pension liabilities by \$12,723,000, reduce prepaid and intangible pension assets by \$18,179,000 and reduce total shareholders' equity by approximately \$22,112,000, net of an estimated deferred tax asset of \$8,790,000. SFAS 158 will not have an effect on 2006 net earnings or prior year financial statements.

### Note 2 - Inventories

The following is a summary of inventories at September 30, 2006 and December 31, 2005:

(Thousands of dollars)	September 30, 2006	December 31, 2005
At lower of LIFO cost or market:		
Live hogs & materials	\$142,251	\$146,661
Fresh pork & materials	18,186	22,987
	160,437	169,648
LIFO adjustment	(54)	571
Total inventories at lower of LIFO cost or market	160,383	170,219
At lower of FIFO cost or market:		
Grain, flour and feed	86,563	107,073
Sugar produced & in process	23,139	26,559
Other	35,666	27,282
Total inventories at lower of FIFO cost or market	145,368	160,914
Total inventories	\$305,751	\$331,133

### Note 3 - Income Taxes

Seaboard's tax returns are regularly audited by federal, state, and foreign tax authorities, which may result in adjustments. In the second quarter of 2006, Seaboard reached a settlement with the Internal Revenue Service (IRS) on its audit of Seaboard's 2004 and 2003 U.S. Federal Tax Returns. The favorable resolution of these tax issues resulted in a tax benefit of \$2,786,000 for items previously reserved which was recorded in the second quarter of 2006.

### Note 4 - Employee Benefits

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Seaboard maintains a defined benefit pension plan ("the Plan") for its domestic salaried and clerical employees. As a result of its current liquidity and tax positions, in February 2006 Seaboard made a contribution of \$3,811,000 which was the maximum deductible contribution allowed for the 2005 plan year. An additional contribution may be made for the 2006 plan year prior to December 31, 2006. Currently, no decision has been made and such

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amount, if any, is not yet known, although such amount would be less than the maximum deduction. The maximum tax deductible contribution for the 2006 plan year is \$28,445,000. Additionally, Seaboard also sponsors non-qualified, unfunded supplemental executive plans, and unfunded supplemental retirement agreements with certain executive employees. Management is considering funding options, but currently has no plans to provide funding for these supplemental plans in advance of when the benefits are paid.

Effective July 6, 2006, Mr. H. H. Bresky retired as President and CEO of Seaboard, remaining as Chairman of the Board. As a result of Mr. Bresky's retirement, he is entitled to an estimated lump sum payment of approximately \$7,400,000 from Seaboard's Executive Retirement Plan. Under IRS regulations, there is a six month delay of benefit payments for key employees and thus Mr. Bresky will not be paid his lump sum until January 2007. It is expected that this lump sum payment will exceed the Company's service and interest cost components under this plan and thus will require the Company to recognize a portion of its actuarial losses, that are currently deferred, in 2007 when the Company is relieved of its obligation. Using current assumptions, this settlement loss is estimated at \$2,500,000.

The net periodic benefit cost of these plans was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
(Thousands of dollars)	2006	2005	2006	2005
Components of net periodic benefit cost:				
Service cost	\$ 1,064	\$ 924	\$ 3,192	\$ 2,782
Interest cost	1,294	1,096	3,883	3,300
Expected return on plan assets	(1,115)	(1,123)	(3,346)	(3,387)
Amortization and other	646	294	1,938	884
Net periodic benefit cost	\$ 1,889	\$ 1,191	\$ 5,667	\$ 3,579

Note 5 - Commitments and Contingencies

Seaboard's subsidiary, Seaboard Foods LP ("Seaboard Foods") reached an agreement in 2002 to settle litigation brought by the Sierra Club. Under the terms of the settlement, Seaboard Foods conducted an investigation at three farms. Based on the investigation, it has been determined that two farms do not require any corrective action. The investigation at the one remaining farm concluded that the lagoon at this farm is a likely source of elevated nitrates in the ground water. Seaboard Foods advised the Oklahoma Department of Agriculture, Food & Forestry as to this fact, and is in the process of making the necessary corrective action, which will include constructing a replacement lagoon. The cost of the lagoon and any other implications is not known with certainty, but the cost is expected to be approximately \$1.5 million. Seaboard Foods has given notice to PIC International Group, Inc. ("PIC"), the former owner of the farm, as to its right to indemnification from any loss as a result of the lagoon. To date, PIC has declined to provide indemnification.

Seaboard Foods has been subject to an ongoing Unilateral Administrative Order ("RCRA Order"), pursuant to Section 7003 of the Resource Conservation and Recovery Act, as amended, 42 U.S.C.

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Sec. 6973 ("RCRA"), filed by the United States Environmental Protection Agency ("EPA") on June 29, 2001. The RCRA Order relates to five swine farms located in Major County and Kingfisher County, Oklahoma purchased from PIC International Group, Inc. ("PIC"), which is also a party to the RCRA Order.

On September 11, 2006, Seaboard Foods and PIC signed a Consent Decree with the United States to resolve the RCRA Order. Pursuant to the Consent Decree, Seaboard Foods and PIC agreed to a civil penalty totaling \$240,000, which PIC has agreed to pay. In addition to payment of the civil penalty, Seaboard Foods and PIC agreed to take a number of remedial actions with respect to the five farms subject to the RCRA Order, and Seaboard Foods agreed to take additional remedial actions with respect to one additional farm. These remedial actions include: groundwater remediation and lagoon replacement and/or barn repairs at three of the farms, ongoing leak detection and groundwater monitoring at all of the farms, contingency response plans effective upon the future detection of infrastructure leaks or over-application of effluent on land application acreage, investigation work regarding infrastructure at two of the farms, modification of land application procedures, and study of land application practices. Consummation of the Consent Decree with the United States is subject to approval of the United States District Court for the Western District of Oklahoma.

In March 2006, Seaboard Foods entered into a Settlement Agreement with the State of Oklahoma to resolve a regulatory action with respect to the same properties involved in the EPA RCRA Order. Pursuant to this

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Settlement Agreement, Seaboard Foods paid a fine of \$100,000, agreed to undertake certain supplemental environmental projects at a cost of \$80,000, and agreed to take remedial actions that are substantially identical to those provided for in the Consent Decree with the United States.

PIC is indemnifying Seaboard Foods with respect to the EPA Consent Decree, including the \$240,000 EPA civil penalty, and the remedial aspects of the State of Oklahoma settlement, excluding the \$100,000 state fine and \$80,000 in costs for supplemental environmental projects, pursuant to an indemnification agreement which has a \$5,000,000 limit. The amounts expended to date and the estimated cumulative future capital expenditures total approximately \$7,600,000, not including the additional legal costs required to consummate the Consent Decree. If the measures taken pursuant to the settlements are not effective, other measures with additional costs may be required. PIC has advised Seaboard Foods that it is not responsible for the costs in excess of \$5,000,000, but has paid expenditures in excess of this amount. Seaboard Foods disputes PIC's determination of the costs to be included in the calculation to determine whether the \$5,000,000 limit has been exceeded, and believes that the costs to be considered are less than \$5,000,000, such that PIC is responsible for all such costs and penalties, except for approximately \$180,000 of estimated costs that would be incurred over five years subsequent to the settlement for certain testing and sampling. Seaboard Foods has agreed to conduct such testing and sampling as part of the sampling it conducts in the normal course of operations, and believes that the incremental costs incurred to conduct such testing and sampling will be less than \$180,000. Seaboard Foods also believes that a more general indemnity agreement would require indemnification of liability in excess of \$5,000,000 (excluding the estimated \$180,000 cost for testing and sampling), although PIC disputes this.

During the fourth quarter of 2005, Seaboard's subsidiary, Seaboard Marine, received a notice of violation letter from U.S. Customs and Border Protection demanding payment of a significant penalty for an alleged failure to manifest narcotics in connection with Seaboard

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Marine's shipping operations, in violation of a federal statute and regulation. Seaboard has responded to the allegations and is engaged in discussions with U.S. Customs and Border Protection regarding the matter. Management believes that the resolution of the matter will not have a material adverse effect on the consolidated financial statements of Seaboard.

Seaboard is subject to various other legal proceedings related to the normal conduct of its business, including various environmental related actions. In the opinion of management, none of these actions is expected to result in a judgment having a materially adverse effect on the consolidated financial statements of Seaboard.

### Contingent Obligations

Certain of the non-consolidated affiliates and third party contractors who perform services for Seaboard have bank debt supporting their underlying operations. From time to time, Seaboard will provide guarantees of that debt allowing a lower borrowing rate or facilitating third party financing in order to further Seaboard's business objectives. Seaboard does not issue guarantees of third parties for compensation. As of September 30, 2006, Seaboard had three guarantees outstanding with a total maximum exposure of \$2,403,000. Seaboard has not accrued a liability for any of the third party or affiliate guarantees as management considered the likelihood of loss to be remote.

As of September 30, 2006, Seaboard had outstanding \$56,521,000 of letters of credit ("LCs") with various banks that reduced Seaboard's borrowing capacity under its committed credit facility. Included in this amount are LCs totaling \$42,688,000 which support the Industrial Development Revenue Bonds included as long-term debt and \$13,158,000 of LCs related to insurance coverages.

### Commitments

During the second quarter of 2006, Seaboard Foods extended a hog procurement contract one additional year. This resulted in an additional commitment in the amount of \$53,925,000 for 2008. Seaboard Foods also renegotiated this contract resulting in additional commitments in the amount of \$12,831,000 and \$13,451,000 for 2006 and 2007, respectively.

### Note 6 - Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)

In conjunction with a 2002 transaction ("the Transaction") between Seaboard and its parent company, Seaboard Flour LLC ("the Parent Company"), whereby Seaboard effectively repurchased shares of its common stock owned by the Parent Company in return for repayment of all indebtedness owed by the Parent Company to Seaboard, the Parent Company also transferred to Seaboard rights to receive possible future cash payments from a subsidiary of the Parent Company and the benefit of other assets owned by that subsidiary. Seaboard also received tax net operating losses ("NOLs") which allow Seaboard to reduce the amount of future income taxes it otherwise would pay. To the extent Seaboard receives cash payments as a result of the transferred rights or

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reduces its federal income taxes payable by utilizing the NOLs, Seaboard agreed to issue to the Parent Company new shares of common stock with a value equal to the cash received and/or the NOLs utilized. The value of the common stock for purposes of determining the number of shares issued is equal to the ten day rolling average closing price, determined as of the twentieth day prior to the issue

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date. The maximum number of shares of common stock which may be issued to the Parent Company under the Transaction is capped at 232,414.85, the number of shares which were originally purchased from the Parent Company.

On September 15, 2005, Seaboard filed tax returns utilizing the NOLs resulting in reducing its federal income tax by \$8,317,416. Based on terms of the Transaction, the price of the shares of Seaboard's common stock to be issued to the Parent Company is equal to the ten day rolling average closing price prior to October 1, 2005, which was \$1,317.44. This resulted in Seaboard issuing 6,313.34 shares to Parent Company on November 3, 2005. As of September 30, 2006, Seaboard had not received any cash payments from the subsidiary of its Parent Company and does not currently expect to receive any material amount of cash prior to the expiring of the right to receive such payments on September 17, 2007.

As all contingencies regarding the issuance of the shares to the Parent Company were resolved as of October 1, 2005, the weighted average number of shares presented below for 2005 reflect such shares as outstanding for one day for the basic earnings per share periods and for the entire third quarter for the diluted earnings per share periods.

The following table reconciles the number of shares utilized in the earnings per share calculations:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2006	2005	2006	2005
Weighted average number of shares				
Common shares - basic	1,261,367	1,255,123	1,261,367	1,255,077
Effect of dilutive securities				
Stock issuance to Parent	-	6,244	-	2,074
Common shares - diluted	1,261,367	1,261,367	1,261,367	1,257,151

Components of total comprehensive income, net of related taxes, are summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
(Thousands of dollars)	2006	2005	2006	2005
Net earnings	\$61,189	\$52,590	\$181,919	\$183,851
Other comprehensive income (loss) net of applicable taxes:				
Foreign currency translation adjustment	(998)	(993)	(1,867)	1,441
Unrealized gains on investments	605	62	735	109
Unrealized gains (losses) on cash flow hedges	-	-	(22)	155
Amortization of deferred gain on interest rate swaps	(50)	(50)	(150)	(150)
Total comprehensive income	\$60,746	\$51,609	\$180,615	\$185,406

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The components of and changes in accumulated other comprehensive loss for the nine months ended September 30, 2006 are as follows:

	Balance	Period	Balance
(Thousands of dollars)	December 31,	Change	September 30,
	2005		2006

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Foreign currency translation adjustment	\$ (53,229)	\$ (1,867)	\$ (55,096)
Unrealized gain on investments	928	735	1,663
Unrecognized pension cost	(1,041)	-	(1,041)
Net unrealized loss on cash flow hedges	(33)	(22)	(55)
Deferred gain on interest rate swaps	350	(150)	200
Accumulated other comprehensive loss	\$ (53,025)	\$ (1,304)	\$ (54,329)

The unrecognized pension cost is calculated and adjusted annually during the fourth quarter. With the exception of the foreign currency translation loss to which a 35% federal tax rate is applied, income taxes for components of accumulated other comprehensive loss were recorded using a 39% effective tax rate.

Note 7 - Segment Information

In February 2005, the Board of Directors of the Bulgarian wine business ("the Business"), and the majority of the owners of the Business, including Seaboard, agreed to pursue the sale of the entire Business or all of its assets. As a result of additional advances made during 2005, which changed distribution priorities, Seaboard is entitled to receive approximately 50% of any net sale proceeds of this Business' equity after all third party bank debt has been repaid. As a result, Seaboard decreased its share of the losses from 100% in 2005 to 50% in 2006. Based on current negotiations to sell a substantial portion of the Business and all related wine labels, and other information on the fair value for the sale of all other assets of this Business, management believes if negotiations are successful the remaining carrying value of its investment at the time of disposition will be recoverable from sales proceeds. Seaboard anticipates incurring additional losses from the operation of this Business until the sale of this Business is completed.

During September and October 2006, the Business was able to obtain credits from its suppliers to secure its grape purchases for the 2006 fall harvest. In addition, certain equity holders agreed to advance the final 400,000 Euros (approximately \$507,000) to the Business during the fourth quarter of 2006, one-half of which would be provided by Seaboard, to fulfill the original terms of an agreement reached in 2005. The suppliers' credits and additional advances from equity holders should secure the operations of the Business into the next year. As of September 30, 2006, the remaining carrying value of Seaboard's investments in and advances to this Business total \$2,737,000, including \$2,859,000 of foreign currency translation gains recorded in other comprehensive income from this Business which will be recognized in earnings upon completion of the sale. The investment and losses from the Business are included in the All Other segment. This Business is considered a variable interest entity and there is no related exposure to Seaboard at September 30, 2006.

The following tables set forth specific financial information about each segment as reviewed by Seaboard's management. Operating income for segment reporting is prepared on the same basis as that used for consolidated operating income. Operating income, along with income or losses from foreign affiliates for the Commodity Trading and Milling segment, is used as the measure of evaluating segment performance because management does not consider interest and income tax expense on a segment basis.

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Sales to External Customers:

Three Months Ended

Nine Months Ended

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(Thousands of dollars)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Pork	\$255,872	\$259,185	\$ 753,305	\$ 756,652
Commodity Trading and Milling	176,295	159,304	555,006	718,216
Marine	187,574	161,111	533,858	470,692
Sugar and Citrus	32,809	31,469	80,252	64,079
Power	21,421	21,145	67,197	56,726
All Other	4,411	4,565	13,274	20,703
Segment/Consolidated Totals	\$678,382	\$636,779	\$2,002,892	\$2,087,068

Operating Income:

(Thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Pork	\$ 39,493	\$ 42,719	\$ 99,401	\$ 141,011
Commodity Trading and Milling	8,120	2,113	36,509	29,858
Marine	24,389	18,075	67,403	64,046
Sugar and Citrus	4,592	3,156	12,385	8,427
Power	1,140	2,072	6,175	6,640
All Other	605	521	1,979	2,351
Segment Totals	78,339	68,656	223,852	252,333
Corporate Items	(2,671)	(3,273)	(9,259)	(7,722)
Consolidated Totals	\$ 75,668	\$ 65,383	\$ 214,593	\$ 244,611

Income (Loss) from Foreign Affiliates:

(Thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Commodity Trading and Milling	\$ 1,019	\$ 2,157	\$ 4,988	\$ 5,635
Sugar and Citrus	(28)	(230)	(1,135)	(17)
All Other	(536)	(1,692)	(1,369)	(7,127)
Segment/Consolidated Totals	\$ 455	\$ 235	\$ 2,484	\$ (1,509)

Investments in and Advances to Foreign Affiliates:

(Thousands of dollars)	September 30, 2006	December 31, 2005
Commodity Trading and Milling	\$ 37,963	\$ 34,013
Sugar and Citrus	556	1,987
All Other	2,737	3,992
Segment/Consolidated Totals	\$ 41,256	\$ 39,992

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Total Assets:

(Thousands of dollars)	September 30, 2006	December 31, 2005
Pork	\$ 707,376	\$ 731,422
Commodity Trading and Milling	268,393	282,160
Marine	161,531	150,797
Sugar and Citrus	132,745	112,882
Power	76,283	77,206
All Other	9,274	8,991
Segment Totals	1,355,602	1,363,458
Corporate Items	482,878	452,863
Consolidated Totals	\$1,838,480	\$1,816,321

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Allocation of corporate administrative services to the individual segments primarily represent corporate services rendered to and costs incurred for each specific division with no allocation to individual segments of general corporate management oversight costs. Corporate assets include short-term investments, certain investments in and advances to foreign affiliates, fixed assets, deferred tax amounts and other miscellaneous items. Corporate operating losses represent certain operating costs not specifically allocated to individual segments.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### LIQUIDITY AND CAPITAL RESOURCES

##### Summary of Sources and Uses of Cash

Cash and short-term investments increased \$26.2 million from December 31, 2005 primarily reflecting the cash generated from operations partially offset by the repayments of \$85.4 million of short-term borrowings, \$51.2 million of long-term debt and \$51.6 million for capital expenditures. Cash from operating activities totaled \$217.3 million for the nine months ended September 30, 2006, compared to \$264.0 million for the same period in 2005. Cash from 2006 operating activities decreased compared to the 2005 nine month period primarily reflecting the increases in working capital needs in the Pork and Commodity Trading and Milling segments resulting from the timing of normal transactions for trade payables and voyage settlements, respectively.

##### Acquisitions, Capital Expenditures and Other Investing Activities

During the nine months ended September 30, 2006, Seaboard invested \$51.6 million in property, plant and equipment, of which \$22.3 million was expended in the Pork segment, \$3.5 million was expended in the Commodity Trading and Milling segment, \$15.9 million in the Marine segment, and \$8.3 million in the Sugar and Citrus segment. For the Pork segment, \$10.9 million was spent on improvements to the Guymon processing plant, the biodiesel plant discussed below, and expanding the further processing capacity acquired from Daily's. For the Marine segment, \$11.3 million was spent to purchase cargo carrying and handling equipment and two containerized cargo vessels previously chartered. In the Sugar and Citrus segment, the capital expenditures were primarily used for harvesting equipment and improvements to the plantation. All other capital expenditures are of a normal recurring nature and primarily include replacements of machinery and equipment, and general facility modernizations and upgrades.

The Pork segment is pursuing the construction of a processing plant to utilize by-products from its Guymon processing plant to produce biodiesel at an approximate cost of \$34.0 million, which will be marketed to third parties. Construction of this plant is expected to begin in the fourth quarter of 2006 with approximately \$5.0 million to be spent in the remainder of 2006 and approximately \$23.6 million to be spent in 2007. In addition, the Pork segment plans to expand its processed meats capabilities by constructing a separate further processing plant in Guymon, Oklahoma, primarily for bacon and sausage processing, at an approximate cost of \$40.0 million. Construction of this facility is expected to begin in 2007.

For the remainder of 2006 management has budgeted capital expenditures totaling \$47.3 million. In addition to the projects detailed above, the Pork segment plans to spend \$9.9 million for improvement to existing hog facilities, expansion of the further processing capacity acquired from Daily's, and upgrades to the Guymon processing plant.

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The Commodity Trading and Milling segment plans to spend \$2.1 million primarily for milling facility upgrades and related equipment. The Marine segment has budgeted \$17.3 million for additional cargo carrying and handling equipment and expansion of port facilities. The Sugar and Citrus segment plans to spend \$12.8 million for the purchase of land, the commencement of construction of a new alcohol distillery, and improvements to the mill, plantation and harvesting equipment. The balance of \$0.2 million is planned to be spent in all other businesses. Management anticipates funding these capital expenditures from available cash and short-term investments.

At the beginning of the third quarter of 2005, Seaboard completed the acquisition of a bacon processing company (Daily's) in exchange for \$44.5 million in cash, plus working capital adjustments of \$3.1 million, a 4.74% equity interest in Seaboard Foods LLC (formerly Seaboard Farms, Inc.) initially valued at \$44.5 million, a put right associated with the 4.74% interest in Seaboard Foods LLC initially valued at \$6.7 million and \$0.7 million of acquisition costs incurred. The cash payment was funded with proceeds from the sale of short-term investments.

### Financing Activities and Debt

During the second quarter of 2006, Seaboard terminated a \$50.0 million committed line of credit leaving its committed credit facility totaling \$100.0 million and uncommitted lines totaling \$105.1 million as of September 30, 2006. Borrowings outstanding under the uncommitted lines as of September 30, 2006, totaled \$7.5 million while there were no outstanding borrowings under the committed credit facility. Outstanding standby letters of credit totaling \$56.5 million reduced Seaboard's borrowing capacity under its committed credit line, primarily representing \$42.7 million for Seaboard's outstanding Industrial Development Revenue Bonds and \$13.2 million related to insurance coverages.

Seaboard's remaining 2006 scheduled long-term debt maturities total \$10.2 million. Management believes that Seaboard's existing liquidity from available cash and short term investments will be adequate to make these

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scheduled debt payments and support existing operations during fiscal 2006. Management intends to continue seeking opportunities for expansion in the industries in which Seaboard operates. Management periodically reviews various alternatives for future financings to provide additional liquidity for future operating plans.

See Note 5 to the Condensed Consolidated Financial Statements for a summary of Seaboard's contingent obligations, including guarantees issued to support certain activities of non-consolidated affiliates or third parties who provide services for Seaboard.

### RESULTS OF OPERATIONS

Net sales for the three and nine month periods of 2006 increased by \$41.6 million and decreased by \$84.2 million over the same periods in 2005. The increase for the quarter is primarily the result of higher volumes and higher rates for marine cargo service and higher volumes sold by the commodity trading business. The decrease for the nine month period primarily is the result of the sale of some components of Seaboard's third party commodity trading operations in May 2005.

Operating income increased by \$10.3 million and decreased by \$30.0 million for the three and nine month periods of 2006, respectively, compared to the same periods in 2005. The increase for the quarter is primarily the result of higher volumes and higher rates for marine

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cargo service and the effect of the mark-to-market of derivatives in the Commodity Trading and Milling segment, partially offset by lower sales volumes in the Pork segment. The decrease for the nine month period is primarily the result of lower pork prices, partially offset by the effect of the mark-to-market of derivatives in the Commodity Trading and Milling segment.

### Pork Segment

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales	\$255.9	\$259.2	\$753.3	\$756.7
Operating income	\$ 39.5	\$ 42.7	\$ 99.4	\$141.0

Net sales for the Pork segment decreased \$3.3 million and \$3.4 million for the three and nine month periods of 2006 compared to the same periods in 2005. The decrease in the quarter is primarily the result of lower sales volumes for processed meats and, to a lesser extent, slightly lower prices for pork products partially offset by marketing fee income from Triumph Foods discussed below. The decrease for the nine month period is primarily the result of lower prices for pork products and, to a lesser extent, lower sales volume for pork products partially offset by sales contributed from the acquisition of Daily's in July 2005 and, to a lesser extent marketing fee income from Triumph Foods discussed below.

Operating income for the Pork segment decreased \$3.2 million and \$41.6 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005. The decrease for the quarter is primarily related to the lower sales volumes of processed meats. The decrease for the nine month period primarily is the result of lower prices for pork products partially offset by lower costs for third party hogs used for processing, a higher percentage of Seaboard-raised hogs processed which cost less than third party hogs, additional operating income contributed by Daily's operations and, to a lesser extent, marketing fee income from Triumph Foods. During the first quarter of 2006, Triumph Foods began production at its new pork processing plant and Seaboard began marketing the related pork products for a fee primarily based on the number of head processed by Triumph Foods.

Management is unable to predict future market prices for pork products or the effect on market prices from marketing the increased volumes of pork products produced by Triumph Foods, and the cost of third party hogs used for processing. During 2005 and the last half of 2004, market prices for pork products were high relative to historic norms. Historically high market prices have not been sustained over long periods of time but rather rise and fall based on prevailing market conditions. Overall, management expects pork prices for the remainder of 2006 to be lower than 2005, which could result in significantly lower operating income for this segment during the remainder of 2006 compared to 2005.

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### Commodity Trading and Milling Segment

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales	\$176.3	\$159.3	\$555.0	\$718.2
Operating income	\$ 8.1	\$ 2.1	\$ 36.5	\$ 29.9
Income from foreign affiliates	\$ 1.0	\$ 2.2	\$ 5.0	\$ 5.6

Net sales for the Commodity Trading and Milling segment increased

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\$17.0 million and decreased \$163.2 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005. The increase for the quarter primarily reflects increased commodity trading volumes with affiliates and, to a lesser extent, increased sale volumes at certain African milling operations. The decrease for the nine month period primarily reflects the sale of some components of Seaboard's third party commodity trading operations in May 2005 partially offset by increased commodity trading volumes with affiliates and sales volumes at certain African milling operations.

Operating income for this segment increased \$6.0 million and \$6.6 million for the three and nine month periods of 2006, respectively, compared to the same periods in 2005. The increase for the three and nine month periods of 2006 compared to 2005 primarily reflects the \$5.8 million and \$8.5 million fluctuation, respectively, of marking to market the derivative contracts as discussed below. Operating income for both periods was also positively impacted by improved operating results from increased sales volumes at certain African milling operations. Additionally, operating income was negatively impacted for the nine month period as a result of the sale of certain trading operations discussed above. Due to the uncertain political and economic conditions in the countries in which Seaboard operates, management is unable to predict future sales and operating results, but anticipates positive operating income for the remainder of 2006, excluding the potential effects of marking to market derivative contracts.

Had Seaboard applied hedge accounting to its derivative instruments, operating income would have been lower by \$1.2 million and \$8.8 million for the three and nine month periods of 2006, respectively, whereas operating income for the three and nine months of 2005 would have been higher by \$4.6 million and lower by \$0.3 million, respectively. While management believes its foreign exchange contracts and commodity futures and options are economic hedges of its firm purchase and sales contracts, Seaboard does not perform the type of extensive record-keeping required to account for either type of derivative as hedges for accounting purposes. Accordingly, while the changes in value of the derivative instruments were marked to market, the changes in value of the firm purchase or sales contracts were not.

Income from foreign affiliates for the three and nine month periods of 2006 decreased \$1.2 million and \$0.6 million, respectively, from the same 2005 periods. Based on current political and economic situations in the countries in which the flour and feed mills operate, management cannot predict whether the foreign affiliates will remain profitable for the remainder of 2006.

### Marine Segment

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales	\$187.6	\$161.1	\$533.9	\$470.7
Operating income	\$ 24.4	\$ 18.1	\$ 67.4	\$ 64.0

Net sales for the Marine segment increased \$26.5 million and \$63.2 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005. The increase for the quarter is the result of higher cargo volumes in most markets and, to a lesser extent, higher average cargo rates in certain markets. The increase for the nine month period primarily reflects both higher average cargo rates and higher cargo volumes in most markets. Cargo rates were higher as a result of general rate increases across many markets and higher cost-recovery surcharges for fuel.

Operating income for the Marine segment increased \$6.3 million and

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\$3.4 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005. The increase for the quarter primarily reflects higher cargo rates and volumes partially offset by higher costs of fuel and inland transportation, while such cost increases and higher charter hire expenses had a more significant offset to higher cargo rates and volumes for the nine month period. Although management cannot predict changes in future cargo rates, fuel

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related costs, charter hire expenses or to what extent changes in economic conditions will impact cargo volumes, it does expect this segment to remain profitable for the remainder of 2006.

### Sugar and Citrus Segment

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2006	2005	2006	2005
Net sales	\$ 32.9	\$ 31.5	\$ 80.3	\$ 64.1
Operating income	\$ 4.6	\$ 3.2	\$ 12.4	\$ 8.4
Income (loss) from foreign affiliates	\$ 0.0	\$ (0.2)	\$ (1.1)	\$ 0.0

Net sales for the Sugar and Citrus segment increased \$1.4 million and \$16.2 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005. For the quarter, the increase was the result of higher sugar prices especially on export sales and, to a lesser extent, higher domestic sales volume of sugar. For the nine month period, the increase reflects overall higher sales volumes of sugar primarily from increased purchases of sugar from third parties for resale and, to a lesser extent, increased sugar prices especially on export sales. Partially offsetting the increase for both the three and nine month periods was a decrease in citrus sales for 2006 compared to 2005 as a result of lower citrus trading volumes. Although export prices for sugar have increased significantly during 2006, Argentine sugar prices have only increased slightly during 2006 as governmental authorities are attempting to control inflation by limiting the price of basic commodities, including sugar. Accordingly, management cannot predict whether sugar prices will continue to increase. However, Seaboard expects to at least maintain its historical sales volume to Argentinean customers.

Operating income increased \$1.4 million and \$4.0 million for the three and nine month periods of 2006, respectively, compared to the same periods of 2005, as a result of higher sales volumes and increases in sugar prices as discussed above along with decreased losses in the citrus operations as a result of improved prices for citrus products sold. Management expects operating income will remain positive for the remainder of 2006.

The loss from foreign affiliates for the first nine months of 2006 primarily represents the expense of canceling a franchisee agreement incurred during the first quarter of 2006.

### Power Segment

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2006	2005	2006	2005
Net sales	\$ 21.4	\$21.1	\$ 67.2	\$ 56.7
Operating income	\$ 1.1	\$ 2.1	\$ 6.2	\$ 6.6

Net sales for the Power segment increased \$0.3 million and \$10.5

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million for the three and nine month periods of 2006, respectively, compared to the same periods in 2005 primarily reflecting higher rates partially offset by lower power production levels. Rates have increased during 2006 primarily as a result of higher fuel costs, a component of pricing. During the first nine months of 2006, Seaboard's power production was restricted by the regulatory authorities in the Dominican Republic. The regulatory body schedules production based on the amount of funds available to pay for the power produced and the relative costs of the power produced.

Operating income decreased \$1.0 million and \$0.4 million for the three and nine month periods of 2006, respectively, compared to the same periods in 2005. The decreases were primarily the result of lower production levels while fuel costs, transmission and other regulatory fees charged to Seaboard increased more than rates increased. Management currently cannot predict operating income for the remainder of 2006 since the extent to which the regulatory authority will restrict Seaboard's production of power is uncertain although operating income is expected to be lower than 2005.

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### All Other

(Dollars in millions)	Three Months Ended September 30, October 1,		Nine Months Ended September 30, October 1,	
	2006	2005	2006	2005
Net sales	\$ 4.4	\$ 4.6	\$ 13.3	\$ 20.7
Operating income	\$ 0.6	\$ 0.5	\$ 2.0	\$ 2.4
Loss from foreign affiliate	\$ (0.5)	\$ (1.7)	\$ (1.4)	\$ (7.1)

Net sales and operating income decreased for the nine months ended primarily as a result of discontinuing a portion of Seaboard's transportation business during the second half of 2005 and combining the remaining related party portion of the business with the Pork segment.

The loss from foreign affiliate reflects Seaboard's share of losses from its equity method investment in a Bulgarian wine business. In 2006 Seaboard recorded 50% of the losses from this business compared to 100% in 2005. Management expects additional losses from the operations of this business for the remainder of 2006. See Note 7 to the Condensed Consolidated Financial Statements for further discussion of this business and intentions to sell the business.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$3.1 million and \$13.4 million during the three and nine month periods of 2006 compared to the same periods of 2005. The increase for both periods is the result of increased selling costs in the Marine segment related to the volume growth of this business and, to a lesser extent, additional selling expenses in the Sugar and Citrus segment. The increase for the nine month period also reflects the acquisition of Daily's in July 2005. As a percentage of revenues, SG&A increased to 5.8% and 5.7% for the 2006 three and nine month periods, respectively, compared to 5.7% and 4.8%, respectively, for the same periods in 2005 primarily from the increases noted above. In addition, the increase for the nine month period reflects lower net sales as a result of the sale of some components of Seaboard's third party commodity trading operations in May 2005.

### Interest Expense

Interest expense decreased \$0.9 million and \$2.2 million in the three and nine month periods of 2006, respectively, compared to the same

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periods of 2005, primarily reflecting the lower average level of borrowings during 2006.

### Interest Income

Interest income increased \$1.1 million and \$6.4 million in the three and nine month periods of 2006, respectively, compared to the same periods of 2005, primarily reflecting the higher level of average funds invested during 2006 and to a lesser extent, higher interest rates.

### Minority and Other Noncontrolling Interests

Minority and other noncontrolling interests expense decreased \$0.3 million and increased \$2.3 million in the three and nine month periods of 2006, respectively, compared to the same periods of 2005. The increase for the nine month period primarily reflects the minority interest resulting from the acquisition of Daily's in July 2005.

### Foreign Currency Gains (Losses)

Seaboard realized net foreign currency losses of \$1.9 million and gains of \$0.5 million in the three and nine month periods of 2006, respectively, compared to losses of \$0.4 million in each of the same periods of 2005. The fluctuation for the quarter primarily relates to losses from currency appreciation in certain African operations of the Commodity Trading and Milling segment while the fluctuation for the nine month period primarily relates to gains from the Dominican Republic peso relating to the Power segment.

### Loss from the Sale of a Portion of Operations

During the second quarter of 2005, Seaboard sold some components of its third party commodity trading operations. Because Seaboard does not use hedge accounting for its commodity and foreign exchange agreements, gains of \$2.2 million from the mark-to-market of the sold derivative instruments were recorded in cost of sales prior to the date of the sale while the change in value of the related firm sales commitment was not, resulting in a loss on the sale from this transaction totaling \$1.7 million during the second quarter of 2005.

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### Miscellaneous, Net

Miscellaneous, net for the three and nine months of 2006 includes \$0.0 million and \$3.4 million, respectively, of gains from the mark-to-market of interest rate swap agreements compared to gains of \$3.1 million and \$1.7 million, respectively for the same periods in 2005. See Note 1 to the Condensed Consolidated Financial Statements for further discussion. Miscellaneous, net for the three and nine months of 2006 also includes income of \$1.0 million and \$1.9 million, respectively, from the decrease in the value of put option value relating to the Daily's acquisition in July 2005 compared to gains of \$0.8 million for the same periods in 2005.

### Income Tax Expense

The effective tax rate decreased for the nine months of 2006 compared to 2005 primarily as a result of increased amounts of permanently deferred foreign earnings and lower amounts of domestic taxable income. Also, during the second quarter of 2006, Seaboard recorded a \$2.8 million tax benefit related to a settlement with the Internal Revenue Service. See Note 3 to the Condensed Consolidated Financial Statements for further discussion.

### OTHER FINANCIAL INFORMATION

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In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes", which defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. See Note 1 to the Condensed Consolidated Financial Statements for further discussion of FIN 48. Seaboard is currently assessing the impacts of adoption of FIN 48 on its results of operations and its financial position and will be required to adopt FIN 48 as of January 1, 2007.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 108 (SAB 108), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. In SAB 108, the SEC staff established an approach that is commonly referred to as a "dual approach" because it now requires quantification of errors under both the iron curtain and the roll-over methods. See Note 1 to the Condensed Consolidated Financial Statements for further discussion of SAB 108. For Seaboard, SAB 108 is effective for the fiscal year ending December 31, 2006. The adoption of SAB 108 is not expected to have any effect on Seaboard's financial position, net earnings or prior year financial statements.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements". This statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. See Note 1 to the Condensed Consolidated Financial Statements for further discussion of SFAS 157. For Seaboard, SFAS 157 is effective for the fiscal year beginning January 1, 2008. Management is currently evaluating this standard to determine its impact, if any, on Seaboard.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This statement requires companies to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plan(s) with the offset to accumulated other comprehensive income, a component of stockholders' equity. This statement also requires that previously disclosed but unrecognized gains/losses, prior service costs/credits, and transition assets/obligations be recognized at adoption as a component of shareholders' equity in accumulated other comprehensive income. See Note 1 to the Condensed Consolidated Financial Statements for further discussion of SFAS 158. For Seaboard, SFAS 158 is effective for the fiscal year ending December 31, 2006 and will be adopted in the fourth quarter of 2006. As the December 31, 2006 pension liabilities have not yet been calculated and related assumptions not yet established, the actual amount of the effect of adopting SFAS 158 cannot yet be determined. However, based on the December 31, 2005 pension liabilities and related assumptions, the adoption of SFAS 158 would increase pension liabilities by \$12.7 million, reduce prepaid pension assets by \$18.2 million and reduce total shareholders' equity by approximately \$22.1 million, net of an estimated deferred tax asset of \$8.8 million. SFAS 158 will not have an effect on 2006 net earnings or prior year financial statements.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Seaboard is exposed to various types of market risks in its day-to-day operations. Seaboard utilizes derivative instruments to mitigate some

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of these risks including both purchases and sales of futures and options to hedge inventories, forward purchase and sale contracts. From time to time, Seaboard may enter into speculative derivative transactions not directly related to its raw material requirements. The nature of Seaboard's market risk exposure related to these items has not changed materially since December 31, 2005.

### Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - Seaboard's management evaluated, under the direction of our Chief Executive and Chief Financial Officers, the effectiveness of Seaboard's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of September 30, 2006. Based upon and as of the date of that evaluation, Seaboard's Chief Executive and Chief Financial Officers concluded that Seaboard's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports it files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Due to these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions.

Change in Internal Controls -There has been no change in Seaboard's internal control over financial reporting required by Exchange Act Rule 13a-15 that occurred during the fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, Seaboard's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Seaboard's subsidiary, Seaboard Foods LP ("Seaboard Foods"), has been subject to an ongoing Unilateral Administrative Order ("RCRA Order"), pursuant to Section 7003 of the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Sec. 6973 ("RCRA"), filed by the United States Environmental Protection Agency ("EPA") on June 29, 2001. The RCRA Order relates to five swine farms located in Major County and Kingfisher County, Oklahoma purchased from PIC International Group, Inc. ("PIC"), which is also a party to the RCRA Order.

On September 11, 2006, Seaboard Foods and PIC signed a Consent Decree with the United States to resolve the RCRA Order. Pursuant to the Consent Decree, Seaboard Foods and PIC agreed to a civil penalty totaling \$240,000, which PIC has agreed to pay. In addition to payment of the civil penalty, Seaboard Foods and PIC agreed to take a number of remedial actions with respect to the five farms subject to the RCRA Order, and Seaboard Foods agreed to take additional remedial actions with respect to one additional farm. These remedial actions include: groundwater remediation and lagoon replacement and/or barn repairs at three of the farms, ongoing leak detection and groundwater monitoring at all of the farms, contingency response plans effective upon the future detection of infrastructure leaks or over-application of effluent on land application acreage, investigation work regarding infrastructure at two of the farms, modification of land application procedures, and study of land application practices. Consummation of the Consent Decree with the United States is subject to approval of the United States District Court for the Western District of Oklahoma.

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In March 2006, Seaboard Foods entered into a Settlement Agreement with the State of Oklahoma to resolve a regulatory action with respect to the same properties involved in the EPA RCRA Order. Pursuant to this Settlement Agreement, Seaboard Foods paid a fine of \$100,000, agreed to undertake certain supplemental environmental projects at a cost of \$80,000, and agreed to take remedial actions that are substantially identical to those provided for in the Consent Decree with the United States.

PIC is indemnifying Seaboard Foods with respect to the EPA Consent Decree, including the \$240,000 EPA civil penalty, and the remedial aspects of the State of Oklahoma settlement, excluding the \$100,000 state fine and \$80,000 in costs for supplemental environmental projects, pursuant to an indemnification agreement which has a \$5,000,000 limit. The amounts expended to date and the estimated cumulative future capital expenditures total approximately \$7,600,000, not including the additional legal costs required to consummate the Consent Decree. If the measures taken pursuant to the settlements are not effective, other measures with additional costs may be required. PIC has advised Seaboard Foods that it is not responsible for the costs in excess of \$5,000,000, but

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has paid expenditures in excess of this amount. Seaboard Foods disputes PIC's determination of the costs to be included in the calculation to determine whether the \$5,000,000 limit has been exceeded, and believes that the costs to be considered are less than \$5,000,000, such that PIC is responsible for all such costs and penalties, except for approximately \$180,000 of estimated costs that would be incurred over five years subsequent to the settlement for certain testing and sampling. Seaboard Foods has agreed to conduct such testing and sampling as part of the sampling it conducts in the normal course of operations, and believes that the incremental costs incurred to conduct such testing and sampling will be less than \$180,000. Seaboard Foods also believes that a more general indemnity agreement would require indemnification of liability in excess of \$5,000,000 (excluding the estimated \$180,000 cost for testing and sampling), although PIC disputes this.

The EPA also has been conducting a broad-reaching investigation of Seaboard Foods, seeking information as to compliance with the Clean Water Act ("CWA"), Comprehensive Environment Response, Compensation & Liability Act ("CERCLA") and the Clean Air Act. On September 11, 2006, Seaboard Foods entered into a Consent Decree with the United States to settle the matter, pursuant to which Seaboard Foods agreed to pay a civil penalty of \$205,000 and to take various other actions which will cost approximately \$150,000. As a part of the Consent Decree, Seaboard Foods has applied to participate in the National AFO/CAFO Air Emissions Agreement with the EPA. The \$100,000 penalty that Seaboard Foods will pay to participate in the National AFO/CAFO Air Emissions Agreement will be applied to satisfy a portion of the civil penalty payment under the Consent Decree. Consummation of the Consent Decree with the United States is subject to approval of the United States District Court for the Western District of Oklahoma.

### Item 1A. Risk Factors

There have been no material changes in the risk factors as previously disclosed in Seaboard's Annual Report on form 10-K for the year ended December 31, 2005.

### Item 5. Other Information

Until November 1, 2006, H. H. Bresky, through his direct and indirect ownership and control of Seaboard Corporation, a Delaware corporation (the "Company"), and Seaboard Flour LLC, a Delaware

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limited liability company ("Seaboard Flour"), was the beneficial owner of 903,809.24 shares of common stock of the Company, which shares represented approximately 71.7 percent of the outstanding voting securities of the Company. These shares beneficially owned by H. H. Bresky included 5,611 shares owned individually, 4,250 shares that could be attributed to him as co-trustee of the Bresky Foundation Trust and 893,948.24 shares owned by Seaboard Flour, of which H. H. Bresky was the sole manager and as such, pursuant to the Limited Liability Company Agreement of Seaboard Flour, made all the voting and investment decisions with respect to the shares of the Company owned by Seaboard Flour.

According to the report on Schedule 13D dated November 2, 2006 jointly filed by Steven J. Bresky and Seaboard Flour, on November 1, 2006, H. H. Bresky resigned as sole manager of Seaboard Flour, and Steven J. Bresky was appointed as his successor. As set forth in said Schedule 13D, Steven J. Bresky, through his direct and indirect ownership and control of the Company and Seaboard Flour, was the beneficial owner of 906,347.24 shares of common stock of the Company, which shares represented approximately 71.9 percent of the outstanding voting securities of the Company. These shares, beneficially owned by Steven J. Bresky, included the 893,948.24 shares of the Company owned by Seaboard Flour, of which effective November 1, 2006, Steven J. Bresky holds sole voting and investment power, 2,538 shares owned individually, 5,611 shares owned by H. H. Bresky that could be attributed to Steven J. Bresky and 4,250 shares that could be attributed to him as co-trustee of the Bresky Foundation Trust.

No consideration was exchanged in conjunction with the above-described change of control.

### Item 6. Exhibits

31.1 Certification of the Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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This Form 10-Q contains forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Seaboard Corporation and its subsidiaries (Seaboard). Forward-looking statements generally may be identified as statements that are not historical in nature; and statements preceded by, followed by or that include the words "believes," "expects," "may," "will," "should," "could," "anticipates," "estimates," "intends," or similar expressions. In more specific terms, forward-looking statements, include, without limitation: statements concerning projection of revenues, income or loss, capital expenditures, capital structure or other financial items, including the impact of mark-to-market accounting on operating income; statements regarding the plans and objectives of management for future operations; statements of future economic performance; statements regarding the intent, belief or current expectations of Seaboard and its management with respect to: (i) Seaboard's ability to obtain adequate financing and liquidity,

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(ii) the price of feed stocks and other materials used by Seaboard, (iii) the sales price or market conditions for pork, sugar and other products and services, (iv) statements concerning management's expectations of recorded tax effects under existing circumstances, (v) the ability of trading and milling to successfully compete in the markets it serves and the volume of business and working capital requirements associated with the competitive trading environment, (vi) the charter hire rates and fuel prices for vessels, (vii) the stability of the Dominican Republic's economy and demand for power, related spot market prices and collectibility of receivables in the Dominican Republic, (viii) the effect of the fluctuation in exchange rates for the Dominican Republic peso, (ix) the potential effect of Seaboard's investment in a wine business on the consolidated financial statements, (x) the potential impact of various environmental actions pending or threatened against Seaboard, (xi) statements concerning profitability or sales volume of any of Seaboard's segments, (xii) the impact of the 2005 Daily's acquisition in enhancing Seaboard's ability to venture into other further processed pork products, (xiii) the timetable for the Triumph Foods pork processing plant to reach full double shift operating capacity, (xiv) the ability of Seaboard to successfully market the increased volume of pork produced by Triumph Foods, (xv) the anticipated costs and completion timetable for Seaboard's scheduled capital improvements, or (xvi) other trends affecting Seaboard's financial condition or results of operations, and statements of the assumptions underlying or relating to any of the foregoing statements.

Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to a variety of factors. The information contained in this report, including without limitation the information under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," identifies important factors which could cause such differences.

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### SIGNATURES

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

DATE: November 3, 2006

Seaboard Corporation

by: /s/ Robert L. Steer  
Robert L. Steer, Senior Vice President,  
Treasurer and Chief Financial Officer  
(principal financial officer)

by: /s/ John A. Virgo  
John A. Virgo, Vice President, Corporate  
Controller and Chief Accounting Officer  
(principal accounting officer)

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