

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

SEABOARD CORP /DE/
Form 10-Q
November 05, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2010

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

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

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 October 29, 2010.

Total pages in filing - 25 pages

1

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 | |
|--|--------------------|------------|-------------------|-------------|
| | October 2, | October 3, | October 2, | October 3, |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales: | | | | |
| Products (includes sales to foreign affiliates of \$120,670, \$138,396, \$363,891 and \$399,296, respectively) | \$ 849,049 | \$ 647,256 | \$2,403,174 | \$1,990,553 |
| Services | 231,029 | 176,906 | 681,659 | 575,611 |
| Other | 31,735 | 30,463 | 95,719 | 75,859 |
| Total net sales | 1,111,813 | 854,625 | 3,180,552 | 2,642,023 |
| Cost of sales and operating expenses: | | | | |
| Products | 795,722 | 619,824 | 2,160,084 | 1,911,566 |
| Services | 196,379 | 162,272 | 584,637 | 503,339 |
| Other | 25,738 | 26,049 | 78,776 | 65,955 |
| Total cost of sales and operating expenses | 1,017,839 | 808,145 | 2,823,497 | 2,480,860 |
| Gross income | 93,974 | 46,480 | 357,055 | 161,163 |
| Selling, general and administrative expenses | 52,332 | 49,159 | 146,700 | 145,031 |
| Operating income (loss) | 41,642 | (2,679) | 210,355 | 16,132 |
| Other income (expense): | | | | |
| Interest expense | (1,731) | (3,493) | (5,647) | (10,592) |
| Interest income | 2,945 | 3,734 | 10,263 | 11,878 |
| Income from affiliates | 4,851 | 5,273 | 16,275 | 12,865 |
| Foreign currency gain, net | 5,552 | 1,130 | 2,623 | 325 |
| Other investment income, net | 7,819 | 5,574 | 8,704 | 12,953 |
| Gain on disputed sale, net of expenses | - | 16,787 | - | 16,787 |
| Miscellaneous, net | (3,843) | 164 | (6,479) | 6,358 |

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

| | | | | |
|---|-----------|-----------|------------|-----------|
| Total other income, net | 15,593 | 29,169 | 25,739 | 50,574 |
| Earnings before income taxes | 57,235 | 26,490 | 236,094 | 66,706 |
| Income tax benefit (expense) | (17,752) | 9,758 | (56,591) | 12,248 |
| Net earnings | \$ 39,483 | \$ 36,248 | \$ 179,503 | \$ 78,954 |
| Less: Net losses attributable to noncontrolling interests | 386 | 467 | 748 | 653 |
| Net earnings attributable to Seaboard | \$ 39,869 | \$ 36,715 | \$ 180,251 | \$ 79,607 |
| Earnings per common share | \$ 32.74 | \$ 29.69 | \$ 146.93 | \$ 64.32 |
| Dividends declared per common share | \$ 0.75 | \$ 0.75 | \$ 2.25 | \$ 2.25 |
| Average number of shares outstanding | 1,217,828 | 1,236,758 | 1,226,780 | 1,237,675 |

See accompanying notes to condensed consolidated financial statements.

2

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

| | October 2, 2010 | December 31, 2009 |
|---|--------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 57,422 | \$ 61,857 |
| Short-term investments | 536,137 | 407,351 |
| Receivables, net of allowance | 326,594 | 270,647 |
| Inventories | 468,248 | 498,587 |
| Deferred income taxes | 18,845 | 10,490 |
| Deferred costs | 82,040 | 95,788 |
| Other current assets | 130,941 | 80,582 |
| Total current assets | 1,620,227 | 1,425,302 |
| Investments in and advances to affiliates | 117,494 | 82,232 |
| Net property, plant and equipment | 701,900 | 691,343 |
| Goodwill | 40,628 | 40,628 |
| Intangible assets, net | 19,927 | 20,676 |
| Other assets | 59,676 | 76,952 |
| Total assets | \$2,559,852 | \$2,337,133 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Notes payable to banks | \$ 79,408 | \$ 81,262 |
| Current maturities of long-term debt | 1,683 | 2,337 |
| Accounts payable | 118,301 | 141,193 |
| Deferred revenue | 164,673 | 112,889 |
| Other current liabilities | 231,692 | 180,359 |
| Total current liabilities | 595,757 | 518,040 |
| Long-term debt, less current maturities | 75,162 | 76,532 |

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

| | | |
|--|-------------|-------------|
| Deferred income taxes | 65,911 | 59,546 |
| Other liabilities | 134,055 | 137,596 |
| Total non-current and deferred liabilities | 275,128 | 273,674 |
| Stockholders' equity: | | |
| Common stock of \$1 par value, Authorized 1,250,000 shares; issued and outstanding 1,215,879 and 1,236,758 shares | 1,216 | 1,237 |
| Accumulated other comprehensive loss | (117,888) | (114,786) |
| Retained earnings | 1,802,746 | 1,655,222 |
| Total Seaboard stockholders' equity | 1,686,074 | 1,541,673 |
| Noncontrolling interests | 2,893 | 3,746 |
| Total equity | 1,688,967 | 1,545,419 |
| Total liabilities and stockholders' equity | \$2,559,852 | \$2,337,133 |

See accompanying notes to condensed consolidated financial statements.

3

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

| | Nine Months Ended | |
|---|--------------------|--------------------|
| | October 2, 2010 | October 3, 2009 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 179,503 | \$ 78,954 |
| Adjustments to reconcile net earnings to cash from operating activities: | | |
| Depreciation and amortization | 65,648 | 69,111 |
| Income from affiliates | (16,275) | (12,865) |
| Dividends received from affiliates | 1,389 | 1,937 |
| Other investment income, net | (8,704) | (12,953) |
| Foreign currency exchange (gain) loss | (117) | 6,166 |
| Deferred income taxes | (1,148) | (12,836) |
| Loss (gain) from sale of fixed assets | (2,573) | 472 |
| Gain on disputed sale, net of expenses | - | (16,787) |
| Changes in current assets and liabilities: | | |
| Receivables, net of allowance | (53,182) | 58,904 |
| Inventories | 26,152 | 17,300 |
| Other current assets | (15,460) | (56,762) |
| Current liabilities, exclusive of debt | 64,618 | 62,658 |
| Other, net | 12,134 | 2,752 |
| Net cash from operating activities | 251,985 | 186,051 |
| Cash flows from investing activities: | | |
| Purchase of short-term investments | (590,925) | (267,244) |
| Proceeds from the sale of short-term investments | 402,625 | 180,692 |
| Proceeds from the maturity of short-term investments | 62,837 | 57,055 |
| Acquisition of business, net of cash acquired | (5,578) | - |
| Investments in and advances to affiliates, net | (19,009) | 76 |
| Capital expenditures | (77,897) | (39,140) |
| Proceeds from the sale of fixed assets | 4,812 | 2,931 |
| Payment received for the potential sale of power barges | - | 15,000 |
| Net proceeds from disputed sale | - | 16,787 |
| Other, net | 2,159 | (3,524) |

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

| | | |
|--|-----------|-----------|
| Net cash from investing activities | (220,976) | (37,367) |
| Cash flows from financing activities: | | |
| Notes payable to banks, net | (1,856) | (97,622) |
| Principal payments of long-term debt | (2,088) | (46,669) |
| Repurchase of common stock | (29,994) | (3,370) |
| Dividends paid | (2,756) | (2,783) |
| Other, net | 238 | 212 |
| Net cash from financing activities | (36,456) | (150,232) |
| Effect of exchange rate change on cash | 1,012 | (2,869) |
| Net change in cash and cash equivalents | (4,435) | (4,417) |
| Cash and cash equivalents at beginning of year | 61,857 | 60,594 |
| Cash and cash equivalents at end of period | \$ 57,422 | \$ 56,177 |

See accompanying notes to condensed consolidated financial statements.

4

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, 2009 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.

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

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Net cash from operating activities was increased and net cash from investing activities was decreased from prior year presentation by \$1,937,000 for the first nine months of 2009 to conform to the 2010 presentation of dividends received from affiliates.

Supplemental Noncash Transactions

As discussed in Note 10, during the third quarter of 2010, Seaboard acquired a majority interest in a commodity origination, storage and processing business in Canada. The purchase price allocation is preliminary as management has not yet received the third party valuation to determine the fair value for fixed assets and goodwill. The following table summarizes the non-cash transactions resulting from this acquisition:

| (Thousands of dollars) | Nine Months Ended October 2, 2010 |
|---|--------------------------------------|
| Increase in net working capital | \$ 1,254 |
| Increase in fixed assets | 5,515 |
| Increase in intangible assets and other assets | 175 |
| Increase in deferred taxes | (1,116) |
| Increase in non-controlling interest | (250) |
| Cash paid, net of cash acquired, subject to final adjustments | \$ 5,578 |

Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 810-10 (formerly Financial Accounting Standard No. 167 "Amendments to FASB Interpretation No. 46(R)"). This Topic amends Interpretation 46(R) and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity (VIE). This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the most significant activities of a VIE and the obligation to absorb losses or the right to receive benefits from the VIE.

This Topic eliminates the quantitative approach previously required for determining the primary beneficiary of the VIE, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. This Topic also amends Interpretation 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a

5

VIE and requires certain additional disclosures about the VIE. Seaboard adopted this Topic as of January 1, 2010. The adoption of this Topic did not have a material impact on Seaboard's financial position or net earnings.

Note 2- Investments

Seaboard's short-term investments are treated as either available-

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

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 market values with unrealized gains and losses reflected, net of tax, as a separate component of accumulated other comprehensive income. Trading securities are recorded at their estimated fair market values with unrealized gains and losses reflected in the statement of earnings.

As of October 2, 2010 and December 31, 2009, the available-for-sale investments primarily consisted of money market funds, fixed rate municipal notes and bonds, corporate bonds and fixed income mutual funds. At October 2, 2010, money market funds include \$43,456,000 denominated in Euros. At October 2, 2010 and December 31, 2009, amortized cost and estimated fair market value were not materially different for these investments.

As of October 2, 2010, the trading securities primarily consisted of high yield debt securities. Unrealized net gains related to trading securities for the three and nine months ended October 2, 2010 were \$1,292,000 and \$2,116,000, respectively, and \$1,238,000 and \$1,779,000 for the three and nine months ended October 3, 2009, respectively.

The following is a summary of the amortized cost and estimated fair value of short-term investments for both available-for-sale and trading securities at October 2, 2010 and December 31, 2009.

| (Thousands of dollars) | 2010 | | 2009 | |
|---|-------------------|---------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Money market funds | \$229,841 | \$229,841 | \$153,699 | \$153,699 |
| Corporate bonds | 107,628 | 109,638 | 34,663 | 35,449 |
| Fixed income mutual funds | 60,161 | 60,295 | - | - |
| Fixed rate municipal notes and bonds | 45,700 | 46,018 | 144,794 | 148,609 |
| Variable rate demand notes | 29,900 | 29,900 | 1,900 | 1,900 |
| U.S. Government agency securities | 15,369 | 15,478 | 15,907 | 16,272 |
| Asset backed debt securities | 8,819 | 8,815 | 8,447 | 8,484 |
| U.S. Treasury securities | 3,589 | 3,651 | - | - |
| Other | 2,360 | 2,363 | 3,060 | 3,069 |
| Foreign government debt securities | - | - | 10,300 | 10,210 |
| Total available-for-sale short-term investments | 503,367 | 505,999 | 372,770 | 377,692 |
| High yield trading debt securities | 24,751 | 26,570 | 24,784 | 26,771 |
| Other trading debt securities | 3,271 | 3,568 | 2,669 | 2,888 |
| Total available-for-sale and trading short-term Investments | \$531,389 | \$536,137 | \$400,223 | \$407,351 |

The following table summarizes the estimated fair value of fixed rate securities designated as available-for-sale classified by the contractual maturity date of the security as of October 2, 2010.

| (Thousands of dollars) | 2010 |
|--|-----------|
| Due within one year | \$ 45,288 |
| Due after one year through three years | 108,750 |
| Due after three years | 15,795 |
| Total fixed rate securities | \$169,833 |

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

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

Note 3 - Inventories

The following is a summary of inventories at October 2, 2010 and December 31, 2009:

| (Thousands of dollars) | October 2, 2010 | December 31, 2009 |
|---|--------------------|----------------------|
| At lower of LIFO cost or market: | | |
| Live hogs and materials | \$179,507 | \$192,999 |
| Fresh pork and materials | 23,070 | 22,398 |
| | 202,577 | 215,397 |
| LIFO adjustment | (22,486) | (22,807) |
| Total inventories at lower of LIFO cost or market | 180,091 | 192,590 |
| At lower of FIFO cost or market: | | |
| Grains and oilseeds | 179,044 | 174,508 |
| Sugar produced and in process | 34,336 | 47,429 |
| Other | 48,315 | 46,804 |
| Total inventories at lower of FIFO cost or market | 261,695 | 268,741 |
| Grain, flour and feed at lower of weighted average cost or market | | |
| Total inventories | 26,462 | 37,256 |
| | \$468,248 | \$498,587 |

As of October 2, 2010, Seaboard had \$3,235,000 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. For similar inventories that existed prior to December 31, 2009, Seaboard incurred a write-down in the first quarter of 2009 in the amount of \$8,801,000 (with no tax benefit recognized), or \$7.10 per share.

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. There have not been any material changes in unrecognized income tax benefits since December 31, 2009. Interest related to unrecognized tax benefits and penalties was not material for the nine months ended October 2, 2010.

The change to income tax expense in 2010 from income tax benefit in 2009 is the result of projected domestic earnings during 2010 compared to projected domestic losses in 2009. The higher income tax expense rate for the three month period of 2010 compared to the nine month period of 2010 resulted from increasing the projected domestic income relative to projected total income for 2010 during

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

the third quarter.

Note 5 -Derivatives and Fair Value of Financial Instruments

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

7

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

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

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

The following table shows assets and liabilities measured at fair value on a recurring basis as of October 2, 2010 and also the level within the fair value hierarchy used to measure each category of assets. Seaboard uses the end of the reporting period to determine if there were any transfers between levels. There were no transfers between levels that occurred in the first nine months of 2010. The trading securities classified as other current assets below are assets held for Seaboard's deferred compensation plans.

| (Thousands of dollars) | Balance October 2, 2010 | Level 1 | Level 2 | Level 3 |
|---|-------------------------------|-----------|---------|---------|
| Assets: | | | | |
| Available-for-sale securities - | | | | |
| short-term investments: | | | | |
| Money market funds | \$229,841 | \$229,841 | \$ - | \$ - |
| Corporate bonds | 109,638 | - | 109,638 | - |
| Fixed income mutual funds | 60,295 | 60,295 | - | - |
| Fixed rate municipal notes and bonds | 46,018 | - | 46,018 | - |
| Variable rate demand notes | 29,900 | - | 29,900 | - |
| U.S. Government agency securities | 15,478 | - | 15,478 | - |
| Asset backed debt securities | 8,815 | - | 8,815 | - |
| U.S. Treasury securities | 3,651 | - | 3,651 | - |
| Other | 2,363 | - | 2,363 | - |
| Trading securities - short-term | | | | |
| investments: | | | | |
| High yield debt securities | 26,570 | - | 26,570 | - |
| Other debt securities | 3,568 | - | 3,568 | - |
| Trading securities - other current | | | | |

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

| | | | | |
|-----------------------------------|-----------|-----------|-----------|------|
| assets: | | | | |
| Domestic equity securities | 11,779 | 11,779 | - | - |
| Foreign equity securities | 7,651 | 3,790 | 3,861 | - |
| Fixed income mutual funds | 3,625 | 3,625 | - | - |
| Money market funds | 3,225 | 3,225 | - | - |
| U.S. Treasury securities | 2,535 | - | 2,535 | - |
| U.S. Government agency securities | 1,615 | - | 1,615 | - |
| Other | 172 | 153 | 19 | - |
| Derivatives: | | | | |
| Commodities | 2,790 | 2,790 | - | - |
| Foreign currencies | 28 | - | 28 | - |
| Total Assets | \$569,557 | \$315,498 | \$254,059 | \$ - |
| | | | | |
| Liabilities: | | | | |
| Derivatives: | | | | |
| Commodities (1) | 50,464 | 50,464 | - | - |
| Interest rate swaps | 6,367 | - | 6,367 | - |
| Foreign currencies | 6,235 | - | 6,235 | - |
| Total Liabilities | \$ 63,066 | \$ 50,464 | \$ 12,602 | \$ - |

(1) Excludes \$30,718 of option proceeds resulting in a net liability of \$19,746 as of October 2, 2010.

8

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 October 2, 2010 and December 31, 2009 are presented below.

| (Thousands of dollars) | 2010 | | 2009 | |
|--|-------------------|---------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Short-term investments, available-for-sale | \$503,367 | \$505,999 | \$372,770 | \$377,692 |
| Short-term investments, trading debt securities | 28,022 | 30,138 | 27,453 | 29,659 |
| Long-term debt | 76,845 | 79,507 | 78,869 | 82,415 |

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, 2009.

Commodity Instruments

Seaboard uses various grain, meal, hog, pork bellies 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 October 2, 2010, Seaboard had open net derivative contracts to purchase 17,495,000

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

bushels of grain and 22,000 tons of soybean meal and open net derivative contracts to sell 1,596,000 gallons of heating oil and 38,040,000 pounds of hogs. At December 31, 2009, Seaboard had open net derivative contracts to sell 13,955,000 bushels of grain, 1,344,000 gallons of heating oil, 87,900 tons of soybean meal and open net derivative contracts to purchase 2,720,000 pounds of hogs. 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 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 October 2, 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 \$159,033,000 primarily related to the South African Rand.

At December 31, 2009, 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 \$193,379,000 primarily related to the South African Rand and the Euro.

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

9

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.

In December 2008 and again in March 2009, Seaboard entered into ten-year interest rate exchange agreements with notional amounts of \$25,000,000 each to mitigate the effects of fluctuations in interest

Edgar Filing: SEABOARD CORP /DE/ - Form 10-Q

rates, each with similar terms to agreements discussed above. In June 2009, Seaboard terminated both interest rate exchange agreements. Seaboard received payments in the amount of \$3,981,000 to unwind these agreements.

Counterparty Credit Risk

Seaboard is subject to counterparty credit risk related to its foreign currency exchange agreements. The maximum amount of loss due to the credit risk of the counterparties for these agreements, should the counterparties fail to perform according to the terms of the contracts, was \$28,000 as of October 2, 2010. Seaboard does not hold any collateral related to these agreements.

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 and nine months ended October 2, 2010 and October 3, 2009.

(Thousands of dollars)

| | Location of Gain or (Loss) Recognized in Income | Three Months Ended | | Nine Months Ended | |
|--------------------|---|---|---|---|---|
| | | October 2, 2010 | October 3, 2009 | October 2, 2010 | October 3, 2009 |
| | | Amount of Gain or (Loss) Recognized in Income | Amount of Gain or (Loss) Recognized in Income | Amount of Gain or (Loss) Recognized in Income | Amount of Gain or (Loss) Recognized in Income |
| Commodities | Cost of sales | \$ (29,417) | \$ 7,528 | \$ (6,290) | \$ 13,648 |
| Foreign currencies | Cost of sales | (17,267) | (6,148) | (8,191) | (19,330) |
| Foreign currencies | Foreign currency | 257 | 3,898 | (914) | 332 |
| Interest rate | Miscellaneous, net | (4,072) | - | (7,197) | 5,312 |

The following table provides the fair value of each type of derivative held as of October 2, 2010 and December 31, 2009 and where each derivative is included on the Condensed Consolidated Balance Sheets.

(Thousands of dollars)

| | Asset Derivatives | Fair Value | | Liability Derivatives | Fair Value |
|--------------------|----------------------|------------------------|-----------------|---------------------------|------------|
| | | Balance Sheet Location | October 2, 2010 | | |
| Commodities | Other current assets | \$2,790 | \$4,610 | Other current liabilities | \$50,464 |
| Foreign currencies | Other current assets | 28 | 430 | Other current liabilities | 6,235 |
| Interest rate | Other current assets | - | - | Other current liabilities | 6,367 |