SMITHFIELD FOODS INC
Form 10-Q
March 09, 2012

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

FORM 10-Q

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

For the quarterly period ended January 29, 2012

COMMISSION FILE NUMBER 1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street
Smithfield, Virginia 23430
(757) 365-3000

Virginia	52-0845861
(State of Incorporation)	(I.R.S. Employer Identification Number)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

At March 6, 2012, 161,067,229 shares of the registrant's Common Stock ($.50 par value per share) were outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in millions, except per share data)

	Three Months Ended		Nine Months Ended	
	January 29, 2012 (unaudited)	January 30, 2011	January 29, 2012 (unaudited)	January 30, 2011
Sales	$3,478.3	$3,186.2	$9,885.1	$9,086.3
Cost of sales	3,098.5	2,729.0	8,678.6	7,828.7
Gross profit	379.8	457.2	1,206.5	1,257.6
Selling, general and administrative expenses	187.3	220.3	626.8	594.1
Gain on fire insurance recovery	—	(120.6)	—	(120.6)
Equity in loss (income) of affiliates	22.0	(15.2)	11.3	(44.3)
Operating profit	170.5	372.7	568.4	828.4
Interest expense	42.3	60.3	134.6	194.4
Loss on debt extinguishment	4.6	14.1	12.2	21.4
Income before income taxes	123.6	298.3	421.6	612.6
Income tax expense	44.6	95.7	139.8	190.0
Net income	$79.0	$202.6	$281.8	$422.6
Net income per share:				
Basic	$.49	$1.22	$1.73	$2.55
Diluted	$.49	$1.21	$1.72	$2.53
Weighted average shares outstanding:				
Basic	161.0	166.0	163.1	166.0
Effect of dilutive shares	1.8	1.2	1.1	1.2
Diluted	162.8	167.2	164.2	167.2

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in millions, except share data)

	January 29, 2012 (unaudited)	May 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$163.6	$374.7
Accounts receivable, net	665.6	709.6
Inventories	2,121.7	2,019.9
Prepaid expenses and other current assets	128.9	233.7
Total current assets	3,079.8	3,337.9
Property, plant and equipment, net	2,243.6	2,309.1
Goodwill	766.8	793.3
Investments	506.4	582.5
Intangible assets, net	383.0	386.6
Other assets	168.6	202.4
Total assets	$7,148.2	$7,611.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$71.3	$143.7
Accounts payable	395.5	434.4
Accrued expenses and other current liabilities	590.1	649.8
Total current liabilities	1,056.9	1,227.9
Long-term debt and capital lease obligations	1,907.1	1,978.6
Other liabilities	672.1	856.7
Redeemable noncontrolling interests	2.0	2.0
Commitments and contingencies		
Equity:		
Shareholders' equity:		
Preferred stock, $1.00 par value, 1,000,000 authorized shares	—	—
Common stock, $.50 par value, 500,000,000 authorized shares; 161,064,895 and 166,080,231 issued and outstanding	80.5	83.0
Additional paid-in capital	1,590.1	1,638.7
Stock held in trust	(67.8)	(66.7)
Retained earnings	2,288.0	2,059.7
Accumulated other comprehensive loss	(381.2)	(169.2)
Total shareholders' equity	3,509.6	3,545.5
Noncontrolling interests	0.5	1.1
Total equity	3,510.1	3,546.6
Total liabilities and equity	$7,148.2	$7,611.8

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in millions)

	Nine Months Ended	
	January 29, 2012	January 30, 2011
	(unaudited)	
Cash flows from operating activities:		
Net income	$281.8	$422.6
Adjustments to reconcile net cash flows from operating activities:		
Depreciation and amortization	182.4	174.2
Gain on fire insurance recovery	—	(120.6)
Gain on sale of property, plant and equipment, including breeding stock	(25.3)	(24.2)
Equity in loss (income) of affiliates	11.3	(44.3)
Pension expense	42.9	61.4
Pension contributions	(132.1)	(107.0)
Changes in operating assets and liabilities and other, net	(150.3)	28.5
Net cash flows from operating activities	210.7	390.6
Cash flows from investing activities:		
Capital expenditures	(199.0)	(112.1)
Dispositions, including Butterball, LLC	—	228.8
Insurance proceeds	—	120.6
Net disposals of breeding stock	4.3	21.5
Proceeds from the sale of property, plant and equipment	5.6	21.7
Other	(0.1)	0.1
Net cash flows from investing activities	(189.2)	280.6
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(149.7)	(550.1)
Net proceeds from revolving credit facilities and notes payable	18.4	33.4
Repurchase of common stock	(110.6)	—
Change in cash collateral	23.9	(25.8)
Debt issuance costs and other	(9.9)	0.8
Net cash flows from financing activities	(227.9)	(541.7)
Effect of foreign exchange rate changes on cash	(4.7)	(2.8)
Net change in cash and cash equivalents	(211.1)	126.7
Cash and cash equivalents at beginning of period	374.7	451.2
Cash and cash equivalents at end of period	$163.6	$577.9

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. You should read these statements in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended May 1, 2011. The information reflects all normal recurring adjustments which we believe are necessary to present fairly the financial position and results of operations for all periods included.

Smithfield Foods, Inc., together with its subsidiaries (the “Company,” “we,” “us” or “our”), is the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We conduct our operations through four reportable segments: Pork, Hog Production, International and Corporate, each of which is comprised of a number of subsidiaries, joint ventures and other investments. A fifth reportable segment, the Other segment, contains the results of our former turkey production operations and our previous interest in Butterball, LLC (Butterball), which were sold in December 2010 (fiscal 2011).

The three months ended January 29, 2012 correspond to the third quarter of fiscal 2012 and the three months ended January 30, 2011 correspond to the third quarter of fiscal 2011. Certain prior year amounts have been reclassified to conform to current year presentation.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines, based on its qualitative assessment, that the fair value of a reporting unit more likely than not exceeds its carrying amount, the two-step goodwill impairment test is not required. The new guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The adoption of this guidance is not expected to impact our consolidated condensed financial statements.

NOTE 2: DISPOSAL OF LONG-LIVED ASSETS

Portsmouth, Virginia Plant

In November 2011 (fiscal 2012), we announced that we would shift the production of hot dogs and lunchmeat from The Smithfield Packing Company, Inc.'s Portsmouth, Virginia plant to its Kinston, North Carolina plant and permanently close the Portsmouth facility. The Kinston facility will be expanded to handle the additional production and will incorporate state of the art technology and equipment, which is expected to produce significant production efficiencies and cost reductions. The Kinston expansion will require an estimated $85 million in capital expenditures. The expansion of the Kinston facility and the closure of the Portsmouth facility are expected to be completed by the end of fiscal 2013.

As a result of this decision, we performed an impairment analysis of the related assets at the Portsmouth facility in the second quarter of fiscal 2012 and determined that the net cash flows expected to be generated over the anticipated remaining useful life of the plant are sufficient to recover its book value. As such, no impairment exists. However, we have revised depreciation estimates to reflect the use of the related assets at the Portsmouth facility over their shortened useful lives. As a result, we recognized accelerated depreciation charges of $1.7 million and $2.1 million in cost of sales for the three and nine months ended January 29, 2012, respectively. We expect to recognize accelerated depreciation charges totaling $5.9 million over the next 15 months. Also, in connection with this decision, we wrote-down inventory by $0.8 million in cost of sales and accrued $0.6 million for employee severance in selling, general and administrative expenses in the second quarter of fiscal 2012. All of these charges are being reflected in the

Pork segment.

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Missouri Hog Farms

In the first half of fiscal 2011, we began reducing the hog population on certain of our farms in Missouri in order to comply with an amended consent decree from Missouri. The amended consent decree allows us to return the farms to full capacity upon the installation of an approved "next generation" technology that would reduce the level of odor produced by the farms. The reduced hog raising capacity at these farms is being replaced with third party contract farmers in Iowa. In the first quarter of fiscal 2011, in connection with the anticipated reduction in finishing capacity, we performed an impairment analysis of these hog farms and determined that the book value of the assets was recoverable and thus, no impairment existed.

Based on the favorable hog raising performance experienced with these third party contract farmers and the amount of capital required to install "next generation" technology at our Missouri farms, we made the decision in the first quarter of fiscal 2012 to permanently idle certain of the assets on these farms. Depreciation estimates have been revised to reflect the shortened useful lives of the assets. As a result, we recognized accelerated depreciation charges of $0.7 million and $8.2 million in cost of sales for the three and nine months ended January 29, 2012, respectively. These charges are being reflected in the Hog Production segment.

NOTE 3: INVENTORIES

Inventories consist of the following:

	January 29, 2012	May 1, 2011
	(in millions)	
Livestock	$978.5	$963.9
Fresh and packaged meats	913.6	854.1
Grains	115.4	89.8
Manufacturing supplies	63.5	60.0
Other	50.7	52.1
Total inventories	$2,121.7	$2,019.9

NOTE 4: DERIVATIVE FINANCIAL INSTRUMENTS

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn and soybean meal, which are actively traded on commodity exchanges. We hedge these commodities when we determine conditions are appropriate to mitigate price risk. While this hedging may limit our ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. We attempt to closely match the commodity contract terms with the hedged item. We also enter into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and foreign exchange forward contracts to hedge certain exposures to fluctuating foreign currency rates.

We record all derivatives in the balance sheet as either assets or liabilities at fair value. Accounting for changes in the fair value of a derivative depends on whether it qualifies and has been designated as part of a hedging relationship. For derivatives that qualify and have been designated as hedges for accounting purposes, changes in fair value have no net impact on earnings, to the extent the derivative is considered perfectly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings (commonly referred to as the “hedge accounting” method). For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings (commonly referred to as the “mark-to-market” method). We may elect either method of accounting for our derivative portfolio, assuming all the necessary requirements are met. We have in the past availed ourselves of either acceptable method and expect to do so in the future. We believe all of our derivative instruments represent economic hedges against changes in prices and rates, regardless of their designation for accounting purposes.

We do not offset the fair value of derivative instruments with cash collateral held with or received from the same counterparty under a master netting arrangement. As of January 29, 2012, prepaid expenses and other current assets included $40.8 million representing cash on deposit with brokers to cover losses on our open derivative instruments. Changes in commodity prices could have a significant impact on cash deposit requirements under our broker and counterparty agreements. Additionally, certain of our derivative contracts contain credit risk related contingent features, which would require us to post additional cash collateral to cover net losses on open derivative instruments if our credit rating was downgraded. As of January 29, 2012, the net liability position of our open derivative instruments that are subject to credit risk related contingent features was not material.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties under financial instruments. Although our counterparties primarily consist of financial institutions that are investment grade, there is still a possibility that one or more of these companies could default. However, a majority of our financial instruments are exchange traded futures contracts held with brokers and counterparties with whom we maintain margin accounts that are settled on a daily basis, thereby limiting our credit exposure to non-exchange traded derivatives. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. As of January 29, 2012, we had credit exposure of $12.7 million on non-exchange traded derivative contracts, excluding the effects of netting arrangements. As a result of netting arrangements, we had no significant credit exposure as of January 29, 2012. No significant concentrations of credit risk existed as of January 29, 2012.

The size and mix of our derivative portfolio varies from time to time based upon our analysis of current and future market conditions. All grain contracts, livestock contracts and foreign exchange contracts are recorded in prepaid expenses and other current assets or accrued expenses and other current liabilities within the consolidated condensed balance sheets, as appropriate. Interest rate contracts are recorded in other liabilities.

The following table presents the fair values of our open derivative financial instruments in the consolidated condensed balance sheets on a gross basis.

	Assets		Liabilities	
	January 29, 2012	May 1, 2011	January 29, 2012	May 1, 2011
	(in millions)		(in millions)	
Derivatives using the "hedge accounting" method:				
Grain contracts	$9.8	$46.2	$5.9	$4.8
Livestock contracts	16.8	22.9	3.4	29.5
Interest rate contracts	—	—	—	2.3
Foreign exchange contracts	0.1	0.2	1.2	—
Total	26.7	69.3	10.5	36.6
Derivatives using the "mark-to-market" method:				
Grain contracts	10.6	38.3	7.9	4.7
Livestock contracts	3.4	1.7	1.1	8.0
Energy contracts	0.2	1.0	9.8	0.1
Foreign exchange contracts	2.1	0.3	3.0	1.9
Total	16.3	41.3	21.8	14.7
Total fair value of derivative instruments	$43.0	$110.6	$32.3	$51.3

Hedge Accounting Method

Cash Flow Hedges

We enter into derivative instruments, such as futures, swaps and options contracts, to manage our exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted sale of live hogs and fresh pork, and the forecasted purchase of corn and soybean meal. In addition, we enter into interest rate swaps to manage our exposure to changes in interest rates associated with our variable interest rate debt, and we enter into foreign exchange contracts to manage our exposure to the variability in expected future cash flows attributable to

changes in foreign exchange rates associated with the forecasted purchase or sale of assets denominated in foreign currencies. As of January 29, 2012, we had no cash flow

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hedges for forecasted transactions beyond April 2013.
When cash flow hedge accounting is applied, derivative gains or losses are recognized as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Derivative gains and losses, when reclassified into earnings, are recorded in cost of sales for grain contracts, sales for lean hog contracts, interest expense for interest rate contracts and selling, general and administrative expenses for foreign exchange contracts. Gains and losses on derivatives designed to hedge price risk associated with fresh pork sales are recorded in the Hog Production segment.
During the nine months ended January 29, 2012, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

	Minimum	Maximum	Metric
Commodities:			
Corn	26,705,000	53,210,000	Bushels
Soybean meal	223,700	877,722	Tons
Lean hogs	469,720,000	960,360,000	Pounds
Interest rate	—	200,000,000	U.S. Dollars
Foreign currency [1]	22,959,793	57,558,223	U.S. Dollars

[1] Amounts represent the U.S. dollar equivalent of various foreign currency contracts.
The following table presents the effects on our consolidated condensed financial statements of pre-tax gains and losses on derivative instruments designated in cash flow hedging relationships for the fiscal periods indicated:

	Gains (Losses) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion)		Gains (Losses) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion)		Gains (Losses) Recognized in Earnings on Derivative (Ineffective Portion)	
	Three Months Ended		Three Months Ended		Three Months Ended	
	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	(in millions)		(in millions)		(in millions)	
Commodity contracts:						
Grain contracts	$(4.3)	$53.8	$6.0	$33.1	$—	$0.3
Lean hog contracts	23.7	(100.8)	7.0	0.4	0.4	(0.8)
Interest rate contracts	—	—	2.4	(1.8)	—	—
Foreign exchange contracts	(10.1)	—	(3.6)	—	—	—
Total	$9.3	$(47.0)	$11.8	$31.7	$0.4	$(0.5)
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	(in millions)		(in millions)		(in millions)	
Commodity contracts:						
Grain contracts	$(20.9)	$146.0	$74.1	$30.4	$(0.1)	$1.0
Lean hog contracts	53.0	(69.2)	12.1	(19.3)	(0.7)	(0.7)
Interest rate contracts	—	(1.2)	—	(5.3)	—	—
Foreign exchange contracts	(5.6)	(3.9)	(3.2)	(2.7)	—	—
Total	$26.5	$71.7	$83.0	$3.1	$(0.8)	$0.3

For the fiscal periods presented, foreign exchange contracts were determined to be highly effective. We have excluded from the assessment of effectiveness differences between spot and forward rates, which we have determined to be immaterial.

During the first quarter of fiscal 2012, we discontinued cash flow hedge accounting on a number of grain contracts as it became probable that the original forecasted transactions would not transpire. As a result of this change, the table above for the nine months ended January 29, 2012 includes gains of $12.0 million on grain contracts de-designated from hedging relationships that were reclassified from accumulated other comprehensive loss into earnings in the first quarter of fiscal 2012.

As of January 29, 2012, there were deferred net gains of $14.5 million, net of tax of $9.9 million, in accumulated other comprehensive loss. We expect to reclassify $10.5 million ($6.4 million net of tax) of deferred net gains on closed commodity contracts into earnings within the next twelve months. We are unable to estimate the gains or losses to be reclassified into earnings within the next twelve months related to open contracts as their values are subject to change.

Fair Value Hedges

We enter into derivative instruments (primarily futures contracts) that are designed to hedge changes in the fair value of live hog inventories and firm commitments to buy grains. When fair value hedge accounting is applied, derivative gains and losses are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. The gains or losses on the derivative instruments and the offsetting losses or gains on the related hedged items are recorded in cost of sales for commodity contracts.

During the nine months ended January 29, 2012, the range of notional volumes associated with open derivative instruments designated in fair value hedging relationships was as follows:

	Minimum	Maximum	Metric
Commodities:			
Lean hogs	—	221,680,000	Pounds
Corn	2,245,000	6,505,000	Bushels

The following table presents the effects on our consolidated condensed statements of income of gains and losses on derivative instruments designated in fair value hedging relationships and the related hedged items for the fiscal periods indicated:

	Gains (Losses) Recognized in Earnings on Derivative		Gains (Losses) Recognized in Earnings on Related Hedged Item	
	Three Months Ended		Three Months Ended	
	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	(in millions)		(in millions)	
Commodity contracts	$2.3	$(16.3)	$(2.0)	$11.8
	Nine Months Ended		Nine Months Ended	
	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	(in millions)		(in millions)	
Commodity contracts	$13.4	$(10.6)	$(7.0)	$9.5

We recognized losses of $0.2 million and gains of $2.4 million for the three months ended January 29, 2012 and January 30, 2011, respectively, and gains of $4.5 million and losses of $17.4 million for the nine months ended January 29, 2012 and January 30, 2011, respectively, on closed commodity derivative contracts as the underlying cash transactions affected earnings.

For fair value hedges of inventory, we elect to exclude from the assessment of effectiveness differences between the spot and futures prices. These differences are recorded directly into earnings as they occur. These differences resulted in gains of $0.3 million and losses of $4.3 million for the three months ended January 29, 2012 and January 30, 2011, respectively, and gains of $6.0 million and losses of $1.9 million for the nine months ended January 29, 2012 and January 30, 2011, respectively.

Mark-to-Market Method

Derivative instruments that are not designated as a hedge, have been de-designated from a hedging relationship, or do not meet the criteria for hedge accounting are marked-to-market with the unrealized gains and losses together with actual realized gains and losses from closed contracts being recognized in current period earnings. Under the mark-to-market method, gains and losses are recorded in cost of sales for commodity contracts, and selling, general and administrative expenses for interest rate contracts and foreign exchange contracts.

During the nine months ended January 29, 2012, the range of notional volumes associated with open derivative instruments using the "mark-to-market" method was as follows:

	Minimum	Maximum	Metric
Commodities:			
Lean hogs	400,000	334,320,000	Pounds
Corn	8,485,000	22,810,000	Bushels
Soybean meal	—	240,500	Tons
Soybeans	210,000	775,000	Bushels
Wheat	—	1,820,000	Bushels
Live cattle	—	120,000	Pounds
Natural gas	1,750,000	9,630,000	Million BTU
Heating oil	—	1,008,000	Gallons
Crude oil	—	53,000	Barrels
Foreign currency [1]	33,124,028	129,867,546	U.S. Dollars

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[1] Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

The following table presents the amount of gains and losses recognized in the consolidated condensed statements of income on derivative instruments using the "mark-to-market" method by type of derivative contract for the fiscal periods indicated:

	Three Months Ended		Nine Months Ended	
	January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	(in millions)		(in millions)	
Commodity contracts	$(14.5)	$(14.3)	$10.8	$49.1
Foreign exchange contracts	2.7	0.4	7.3	(4.5)
Total	$(11.8)	$(13.9)	$18.1	$44.6

The table above reflects gains and losses from both open and closed contracts including, among other things, gains and losses related to contracts designed to hedge price movements that occur entirely within a quarter. The table includes amounts for both realized and unrealized gains and losses. The table is not, therefore, a simple representation of unrealized gains and losses recognized in the income statement during any period presented.

NOTE 5: HOG PRODUCTION COST SAVINGS INITIATIVE

In the fourth quarter of fiscal 2010, we announced a plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative). The plan includes a number of undertakings designed to improve operating efficiencies and productivity. These consist of farm reconfigurations and conversions, termination of certain high cost, third party hog grower contracts and breeding stock sourcing contracts, as well as a number of other cost reduction activities. We expect the Cost Savings Initiative to be substantially complete by the end of fiscal 2013.

The following table summarizes the balance of accrued expenses and related activity associated with the Cost Savings Initiative by major type of cost. All of the charges presented have been recorded in cost of sales in the Hog Production segment.

	Accrued Balance May 1, 2011	1st Quarter FY 2012 Expense	2nd Quarter FY 2012 Expense	3rd Quarter FY 2012 Expense	Payments	Accrued Balance January 29, 2012	Cumulative Expense-to-Date	Estimated Remaining Expense
	(in millions)							
Cost savings activities:								
Contract terminations	$0.8	$ 0.1	$ 0.3	$ 0.1				