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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 February 25, 2007

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 333-100717-06

**S&C Holdco 3, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State of incorporation)*

**81-0557245**

*(IRS Employer Identification No.)*

**1770 Promontory Circle, Greeley, CO**

*(Address of principal executive offices)*

**80634**

*(Zip Code)*

**(970) 506-8000**

*(Registrant's telephone number, including area code)*

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 is no market for the Registrant's common stock. As of April 4, 2007, 1,000 shares of the Registrant's common stock were outstanding.

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**QUARTERLY REPORT ON FORM 10-Q**  
**February 25, 2007**

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**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**S&C HOLDCO 3, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(unaudited)**

	<u>May 28, 2006</u>	<u>February 25, 2007</u>
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51,681	\$ 46,687
Trade accounts receivable, net of allowance for doubtful accounts of \$1,256 and \$970, respectively	366,744	319,565
Inventories	503,426	460,993
Other current assets	40,938	39,812
Total current assets	962,789	867,057
Property, plant, and equipment, net	510,921	493,759
Goodwill	12,681	12,681
Other intangibles, net	22,370	17,362
Other assets	21,480	24,744
Total assets	<u>\$ 1,530,241</u>	<u>\$ 1,415,603</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,802	\$ 1,963
Accounts payable, including book overdrafts	254,681	204,367
Accounts payable to related parties	3,461	3,187
Accrued liabilities	212,577	203,631
Total current liabilities	472,521	413,148
Long-term debt, less current portion	824,984	803,825
Other non-current liabilities	40,801	46,143
Total liabilities	1,338,306	1,263,116
Commitments and contingencies (Notes 3 and 5)		
Stockholder's equity:		
Common stock, par value \$0.01, 1,000 shares authorized, issued and outstanding at May 28, 2006 and February 25, 2007	—	—
Additional paid-in capital	263,083	263,444
Accumulated deficit	(119,263)	(167,850)
Accumulated other comprehensive income	48,115	56,893
Total stockholder's equity	191,935	152,487
Total liabilities and stockholder's equity	<u>\$ 1,530,241</u>	<u>\$ 1,415,603</u>

The accompanying notes are an integral part of these financial statements.

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS (LOSSES)**  
**(unaudited)**

	<b>Thirteen Weeks Ended</b>		<b>Thirty-Nine Weeks Ended</b>	
	<b>February 26, 2006</b>	<b>February 25, 2007</b>	<b>February 26, 2006</b>	<b>February 25, 2007</b>
	(in thousands)		(in thousands)	
Net sales	\$ 2,244,252	\$ 2,090,367	\$ 6,957,100	\$ 7,147,859
Cost of goods sold	<u>2,255,783</u>	<u>2,084,091</u>	<u>6,902,305</u>	<u>7,021,972</u>
Gross profit (loss)	<u>(11,531)</u>	<u>6,276</u>	<u>54,795</u>	<u>125,887</u>
Selling, general, and administrative	38,379	34,682	113,563	105,133
Translation (gains) losses	22	(737)	225	(117)
Interest expense, net	<u>22,319</u>	<u>22,265</u>	<u>63,794</u>	<u>67,896</u>
Total other expenses	<u>60,720</u>	<u>56,210</u>	<u>177,582</u>	<u>172,912</u>
Loss before income taxes	(72,251)	(49,934)	(122,787)	(47,025)
Income tax expense (benefit)	<u>(22,900)</u>	<u>(1,364)</u>	<u>(42,509)</u>	<u>1,562</u>
Net loss	<u>\$ (49,351)</u>	<u>\$ (48,570)</u>	<u>\$ (80,278)</u>	<u>\$ (48,587)</u>

The accompanying notes are an integral part of these financial statements.

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	<b>Thirty-Nine Weeks Ended</b>	
	<b>February 26, 2006</b>	<b>February 25, 2007</b>
	(in thousands)	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (80,278)	\$ (48,587)
<b>Adjustments to reconcile net loss to net cash from operating activities:</b>		
Depreciation	58,182	54,387
Amortization of intangibles, debt issuance costs, and accretion of bond discount	8,088	8,003
Loss (gain) on sale of property, plant, and equipment and intangible asset	166	(1,634)
Deferred taxes	(39,274)	(3,465)
Deferred revenue	1,000	—
Stock-based compensation	445	611
Other noncash items (includes paid in kind interest on senior notes due 2010)	1,602	10,172
Change in assets and liabilities	39,160	46,435
Net cash flows (used in) provided by operating activities	<u>(10,909)</u>	<u>65,922</u>
<b>Cash flows from investing activities:</b>		
Additions to property, plant, and equipment	(36,452)	(30,165)
Proceeds from sales of property, plant, and equipment	1,842	4,478
Proceeds from sale of intangible asset (water rights)	—	2,872
Notes receivable and other items	344	—
Net cash flows used in investing activities	<u>(34,266)</u>	<u>(22,815)</u>
<b>Cash flows from financing activities:</b>		
Additions to (payments of) revolver, net	49,501	(29,176)
Payments of debt	(1,009)	(1,497)
Change in bank overdraft balances	(25,609)	(17,441)
Dividends paid	(7,293)	(250)
Net cash flows provided by (used in) financing activities	<u>15,590</u>	<u>(48,364)</u>
Effect of exchange rates on cash	<u>(16)</u>	<u>263</u>
Net change in cash and cash equivalents balances	<u>(29,601)</u>	<u>(4,994)</u>
Cash and cash equivalents, beginning of period	<u>79,348</u>	<u>51,681</u>
Cash and cash equivalents, end of period	<u>\$ 49,747</u>	<u>\$ 46,687</u>

The accompanying notes are an integral part of these financial statements.

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

S&C Holdco 3, Inc. (“Swift Holdings”) is a Delaware corporation which owns 100% of the issued and outstanding capital stock of Swift & Company (“Swift Operating”). The operations of Swift Operating and its subsidiaries constitute the operations of Swift Holdings presented under accounting principles generally accepted in the United States of America (“GAAP”).

Swift Operating is one of the leading beef and pork processing companies in the world. Swift Operating processes, prepares, packages, and delivers fresh, further processed, and value-added beef and pork products for sale to customers in the United States (“US”) and international markets. Swift Operating also provides services to its customers designed to help them develop more comprehensive and profitable sales programs. Swift Operating sells its meat products to customers in the foodservice, international, further processor, and retail distribution channels. Swift Operating also produces and sells by-products that are derived from its meat processing operations such as hides and variety meats to customers in various industries.

Swift Operating and its subsidiaries conduct its domestic beef and pork processing businesses through Swift Beef Company (“Swift Beef”) and Swift Pork Company (“Swift Pork”) and its Australian beef business through Australia Meat Holdings Pty. Ltd. (“Swift Australia”). Swift Operating operates four beef processing facilities, three pork processing facilities, one lamb slaughter facility, and one value-added facility in the US and four beef processing facilities and four feedlots in Australia. Swift Operating’s facilities are strategically located to access raw materials in a cost effective manner and to service its global customer base.

On September 19, 2002, HMTF Rawhide, L.P. (the “Purchaser”), the partnership formed by Swift Holdings’ equity sponsors, acquired a 54% interest in the US beef, pork, and lamb processing business and the Australian beef business of ConAgra Foods Inc. (the “Transaction”) excluding (i) ConAgra Beef Company’s cattle feeding operations (the “domestic cattle feeding operations”) and (ii) Weld Insurance Company, Inc., Monfort Finance Company, Inc., and Monfort Construction Company. Subsequent to the Transaction, the Purchaser owned approximately 54% of Swift Foods Company, ConAgra Foods owned approximately 45%, and management of Swift Foods Company owned approximately 1%. In a related transaction, an indirect subsidiary of Swift Foods Company also acquired all of the common stock of the domestic cattle feeding operations, which are not part of the business of Swift Holdings and its subsidiaries.

On July 30, 2004, the Purchaser gave notice of its exercise of the right to purchase all of the remaining common stock of Swift Foods Company held by ConAgra Foods and its affiliates. The purchase of such stock was completed on September 23, 2004 (the “Call Option”) for a purchase price of approximately \$200 million including fees and direct costs of the transaction and was funded by a credit facility obtained by a subsidiary of the Purchaser. Included in the fees related to the Call Option is \$2.9 million paid to Hicks, Muse & Co. Partners L.P., an affiliate of the Purchaser, for services performed in conjunction with the Call Option. To effect the purchase of the shares held by ConAgra Foods, the Purchaser formed Rawhide Subsidiary 1 and Rawhide Subsidiary 3 along with other holding companies. Rawhide Subsidiary 1 was later renamed Swift Foods Company (“Swift Foods”) and Rawhide Subsidiary 3 was later renamed SFC Subsidiary Holdings, Inc. (“SFC”). The former Swift Foods Company (“Former Swift Foods”), incorporated in May 2002, was merged into SFC in November 2004 and all outstanding shares and options of Former Swift Foods common stock were exchanged for shares of Swift Foods on a 1 for 1 basis. Swift Foods owns 100% of the issued and outstanding capital stock of SFC, which in turn owns 100% of the issued and outstanding capital stock of S&C Holdco 2, Inc., which in turn owns 100% of the issued and outstanding capital stock of Swift Holdings. Swift Holdings owns 100% of the issued and outstanding capital stock of Swift Operating. GAAP generally provides for the application of “push down accounting” in situations where the ownership of an entity has changed, meaning that the post-transaction financial statements of the acquired entity reflect a new basis of accounting. The accompanying financial statements of Swift Holdings do not reflect a new basis of accounting with respect to the Call Option pursuant to Staff Accounting Bulletin (“SAB”) No. 54, *Application of “Pushdown” Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase* (“SAB No. 54”). The guidance in SAB No. 54 allows the post-Call Option financial statements to continue under the historical basis of accounting because of the existence of significant outstanding public debt at the time of the Call Option.

After giving effect to these transactions, Swift Foods is owned 82% by HM Capital Partners, LP, 17% by Booth Creek Management, and 1% by management.

These consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the US Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and related notes, which are included in the Swift Holdings’ Annual Report on Form 10-K for the fiscal year ended May 28, 2006. The interim consolidated financial information furnished herein is unaudited and reflects all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the periods presented.

The consolidated financial statements include the accounts of Swift Holdings and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

The results of operations for any quarter or a partial fiscal year period or for the periods presented are not necessarily indicative of the results to be expected for other periods or the full fiscal year.

#### ***Adoption of New Accounting Pronouncements***

Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), *Share-Based Payments* (“SFAS No. 123(R)”), was issued in December 2004 and became effective for Swift Operating in the first quarter of fiscal 2007. In March 2005, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management issued SAB No. 107, *Share-Based Payment* (“SAB No. 107”), to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R). Swift Operating applied the principles of SAB No. 107 in conjunction with its adoption of SFAS No. 123(R) in the first quarter of fiscal year 2007. The effects on Swift Operating’s consolidated financial statements of adopting SFAS No. 123(R) and SAB No. 107 are discussed below under “Stock-Based Compensation.”

In September 2006, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB No. 108”), which became effective for Swift Operating in fiscal year 2007. See below, “Recently Issued Accounting Pronouncements,” for discussion of SAB No. 108.

#### ***Use of Estimates***

The consolidated financial statements have been prepared in conformity with GAAP using management’s best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments.

Swift Operating estimates its total income tax expense based on statutory tax rates and tax planning opportunities available to it in various jurisdictions in which it earns income. Federal income taxes include an estimate for taxes on earnings of foreign subsidiaries expected to be remitted to the United States and be taxable, but not for earnings considered indefinitely invested in the foreign subsidiary. The calculation of these tax liabilities involves uncertainties in the application of complex tax regulations across the tax jurisdictions in which Swift Operating operates. In addition, Swift Operating records tax liabilities for anticipated tax audit issues based on its estimate of whether, and the extent to which, additional taxes will be due. Swift Operating adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities.

#### ***Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation. Revolver activity on the statements of cash flows has been reclassified and shown separately from other debt payments. Noncash interest expense has been reclassified from changes in asset and liabilities on the statements of cash flows and shown as noncash items in the reconciliation of net income to cash flows from operations. In Note 7, cash flows from operations for the Parent Guarantor have been reclassified in this Form 10-Q to the Subsidiary Guarantor and Subsidiary Non-Guarantor columns to reflect the reconciliation of net income to cash flows from operations for noncash items in the column that originally recognized the item in net income, this had no impact on consolidated cash flows from operations. For the thirteen and thirty-nine weeks ended February 26, 2006, Swift Holdings reduced sales and cost of goods sold of Swift Australia by \$12.2 million and \$45.5 million, respectively, in order to eliminate certain intercompany transactions consistent with the presentation for the fiscal year ended May 28, 2006 in Swift Holdings’ previously filed

Annual Report on Form 10-K. These reclassifications had no impact on gross profit, income (loss) before income taxes, net income (loss), or cash flows for either the thirteen or thirty-nine weeks ended February 26, 2006 or the full fiscal year ended May 28, 2006. Income tax balances have been reclassified in the May 28, 2006 balance sheet presented in Note 7 to reflect the tax asset and liability positions of the Issuer and Subsidiary Guarantors, along with an offsetting elimination for consolidation in order to present income tax balances in their net position by tax jurisdiction. No reclassification was necessary in the Total column as the consolidated balances reflected the income tax balances in their net position.

### ***Recently Issued Accounting Pronouncements***

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* (“SFAS No. 155”). This statement simplifies the accounting for certain hybrid financial instruments by permitting fair value accounting for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This pronouncement will be effective for Swift Holdings for fiscal year 2008. Swift Holdings does not expect the adoption of SFAS No. 155 to have a material impact on its financial position, results of operations, or cash flows.

In July 2006, the FASB issued FASB Interpretation Number (“FIN”) 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 is an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for the uncertainty in income taxes recognized in an enterprise’s financial statements. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then valued to determine the amount of benefit to be recognized in the financial statements. FIN 48 will be effective for Swift Holdings as of the beginning of fiscal year 2008. Swift Holdings is currently evaluating the impact, if any, of FIN 48 on its financial position, results of operations, and cash flows.

In September 2006, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management released SAB No. 108 that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for Swift Holdings in fiscal year 2007. Swift Holdings’ method is in line with the SEC’s view, therefore, the adoption of SAB No. 108 did not have a material impact on its financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. This Statement is effective for Swift Holdings for fiscal year 2009. Swift Holdings does not expect the adoption of SFAS No. 157 to have a material impact on its financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this Statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities using different measurement techniques. The fair value measurement provisions are elective and can be applied to individual financial instruments. SFAS No. 159 requires additional disclosures related to fair value measurements included in the entity’s financial statements. This Statement is effective for Swift Holdings as of the beginning of fiscal year 2009. Swift Holdings has not determined if it will elect to adopt the fair value measurement provisions of this Statement and what impact such adoption may have on its financial position, results of operations, or cash flows.

### ***Inventories***

The components of inventories, net of reserves, are as follows (in thousands):

	<u>May 28, 2006</u>	<u>February 25, 2007</u>
Livestock	\$ 100,931	\$ 106,785
Product inventories:		
Work in progress	39,380	35,008
Finished goods	323,606	276,143
Supplies	39,509	43,057
	<u>\$ 503,426</u>	<u>\$ 460,993</u>

### ***Property, Plant, and Equipment***

Property, plant, and equipment are comprised of the following (in thousands):

	<u>May 28, 2006</u>	<u>February 25, 2007</u>
Land	\$ 10,510	\$ 10,737
Buildings, machinery, and equipment	666,352	684,962
Property and equipment under capital lease	21,536	21,130
Furniture, fixtures, office equipment, and other	53,702	56,438
Construction in progress	9,548	25,399
	761,648	798,666
Less accumulated depreciation	<u>(250,727)</u>	<u>(304,907)</u>
	<u>\$ 510,921</u>	<u>\$ 493,759</u>

### ***Goodwill and Other Intangible Assets***

The following is a rollforward of goodwill for the thirty-nine weeks ended February 25, 2007 (in thousands):

	<u>May 28, 2006</u>	<u>Adjustments</u>	<u>February 25, 2007</u>
Swift Pork	\$12,681	\$—	\$12,681

Other identifiable amortizing intangible assets as of May 28, 2006 and February 25, 2007 are as follows (in thousands):

	<u>May 28, 2006</u>			<u>February 25, 2007</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Amortizing intangible assets:						
Patents	\$ 3,782	\$ (1,519)	\$ 2,263	\$ 3,782	\$ (1,828)	\$ 1,954
Preferred Supplier Agreement	27,912	(11,651)	16,261	28,221	(13,138)	15,083
Total amortizing intangibles	<u>\$31,694</u>	<u>\$ (13,170)</u>	<u>\$18,524</u>	<u>\$32,003</u>	<u>\$ (14,966)</u>	<u>\$17,037</u>

For the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007, Swift Operating recognized \$0.6 million, \$2.2 million, \$0.6 million, and \$1.7 million of amortization expense, respectively.

Based on amortizing assets recognized in Swift Operating's balance sheet as of February 25, 2007, amortization expense for each of the next five fiscal years is estimated as follows (in thousands):

2007 (remaining)	\$ 564
2008	2,133
2009	1,980
2010	1,606
2011	1,488

Other intangible assets that are not subject to amortization include Water Right Agreements with a total carrying amount of \$3.9 million and \$0.3 million as of May 28, 2006 and February 25, 2007, respectively. During the thirteen weeks ended February 25, 2007, Swift Holdings divested certain water rights with a net book value of \$3.3 million for proceeds of \$2.9 million.

#### ***Other Assets***

Other assets include notes receivable totaling \$7.6 million at February 25, 2007, from the City of Cactus, Texas (the "City"). In December 2002, Swift Beef loaned \$2.3 million to the City for use by the City to secure acreage for the construction of the City's new wastewater treatment plant. Swift Operating owns a beef processing facility as well as a wet blue hide processing facility which will be served by the new treatment plant. The loan was for an original two-year term and accrued interest at 6%. The loan was amended in December 2004 to extend the maturity for up to one year and was extended for an additional year in December 2005 and again for an additional year in December 2006. An additional loan was made by Swift Beef to the City in the amount of \$3.5 million in January 2005 to secure additional acreage and was amended in December 2005 and again in December 2006 to extend the maturity for up to one year. A final loan in the amount of \$1.8 million was made to the City to secure final acreage in September 2005 and was amended in September 2006 to extend the maturity for up to one year. In March 2007, the maturity dates of the notes receivable were amended to be on the demand of Swift Beef to the extent that debt securities have been issued by the City in amounts sufficient to repay the loans but in no event later than December 31, 2012. In August 2006, the State of Texas approved the issuance of a wastewater treatment permit which was issued on November 9, 2006. Swift Operating will evaluate the impact of FASB Emerging Issues Task Force ("EITF") No. 01-08, *Determining Whether an Arrangement Contains a Lease*, as well as EITF No. 97-10, *The Effect of Lessee Involvement in Asset Construction*, in order to determine whether, once capital investment is begun by the City, and a written agreement is reached, Swift Operating may be required to reflect the wastewater treatment facility as a capital asset (similar to a capital leased asset) as Swift Operating will be the primary user of the wastewater facility based on projections of volume of throughput. Interest income on the notes is recognized as an offset to interest expense and is payable upon maturity of the notes.

#### ***Overdraft Balances***

The majority of Swift Holding's bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are included in the trade accounts payable balance. The change in the related balance is reflected in financing activities on the statements of cash flows. As of May 28, 2006 and February 25, 2007, book overdrafts included in trade accounts payable were \$109.5 million and \$92.2 million, respectively.

#### ***Foreign Currency Translation***

For foreign operations, the local currency is the functional currency. Translation into US dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the period. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income. Translation gains and losses on US dollar denominated revolving intercompany borrowings between the Australian subsidiaries and the US parent are recorded in earnings. Translation gains and losses on US dollar denominated intercompany borrowings between the Australian subsidiary and the US parent, which are deemed to be part of the investment in the subsidiary, are recorded in other comprehensive income.

#### ***Income Taxes***

Swift Holdings calculates its interim income tax provision in accordance with FIN 18, *Accounting for Income Taxes in Interim Periods* ("FIN 18"). In accordance with paragraph 22a of FIN 18 and paragraph 140 of SFAS No. 109 *Accounting for Income Taxes* ("SFAS No. 109"), Swift Holdings recorded a federal tax benefit of \$3.5 million and \$4.2 million on US losses for the thirteen and

thirty-nine weeks ended February 25, 2007, respectively. In addition, Swift Holdings recognized a tax benefit of \$1.8 million related to an adjustment for tax contingencies during the thirty-nine weeks ended February 25, 2007. The remaining tax expense recognized for the thirteen and thirty-nine weeks ended February 25, 2007 relates to income and other tax expenses of our Australian subsidiary, foreign withholding tax, and certain state and local tax expenses in the US.

Prior to the Transaction, Swift Operating was included in the consolidated tax returns of ConAgra Foods. Subsequent to the Transaction, Swift Operating is included in the consolidated tax returns of Swift Foods. The provision for income taxes is computed on a separate legal entity basis. Deferred tax assets and liabilities are recognized based on the differences between the financial statement and tax bases of assets and liabilities at each balance sheet date using enacted tax rates expected to be in effect in the year the differences are expected to reverse.

At the date of the Transaction, Swift Operating inherited a carryover tax basis from its predecessor. The predecessor is under examination by taxing authorities which may result in changes to Swift Operating's tax basis. Adjustments to tax basis will require Swift Operating to adjust its purchase accounting for the Transaction pursuant to EITF No. 93-7, *Uncertainties Related to Income Taxes in a Purchase Business Combination* ("EITF No. 93-7"), and may have an impact on its financial position and results of operations.

### ***Comprehensive Income***

The components of comprehensive income for the periods indicated below are as follows (in thousands):

	<b>Thirteen Weeks Ended</b>		<b>Thirty-Nine Weeks Ended</b>	
	<b>February 26, 2006</b>	<b>February 25, 2007</b>	<b>February 26, 2006</b>	<b>February 25, 2007</b>
Net loss	\$ (49,351)	\$ (48,570)	\$ (80,278)	\$ (48,587)
Other comprehensive income (loss):				
Derivative adjustment, net of tax	28	244	12	156
Foreign currency translation adjustment, net of tax	328	3,213	(6,482)	8,622
<b>Total comprehensive loss</b>	<b>\$ (48,995)</b>	<b>\$ (45,113)</b>	<b>\$ (86,748)</b>	<b>\$ (39,809)</b>

The above derivative adjustments are net of tax of \$(16) thousand and \$(108) thousand for the thirteen weeks ended February 26, 2006 and February 25, 2007, respectively, and \$(7) thousand and \$(69) thousand for the thirty-nine weeks ended February 26, 2006 and February 25, 2007, respectively. The above foreign currency translation adjustments are net of tax of \$(1.2) million and \$3.1 million for the thirteen and thirty-nine weeks ended February 26, 2006, and \$(1.9) million and \$(4.7) million for the thirteen and thirty-nine weeks ended February 25, 2007, respectively.

### ***Stock-Based Compensation***

On May 29, 2006, the beginning of its 2007 fiscal year, Swift Holdings adopted the provisions of SFAS No. 123(R) and SAB No. 107, and related interpretations, using the "prospective" method wherein compensation expense is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123(R) for all share-based payments granted or modified after that date. The adoption of SFAS No. 123(R) did not have a material effect on Swift Holdings' financial statements as Swift Holdings had previously elected to utilize the fair value method defined in SFAS No. 123 for all stock options granted on or after December 15, 1994. Under SFAS No. 123, Swift Holdings recognized compensation expense based on the fair value of the options using the Black-Scholes-Merton option pricing model.

### **2002 Stock Option Plan**

At the closing of the Transaction, Former Swift Foods adopted the Swift Foods Company 2002 Stock Option Plan (the "Option Plan"), as assumed by Swift Foods in November 2004, pursuant to which options may be granted to employees and eligible non-employees of Swift Foods or subsidiaries for the purchase of shares of common stock of Swift Foods.

The employees and non-employees (including non-employee directors) eligible to receive awards under the Option Plan will be those individuals whose services to Swift Foods or subsidiaries are determined by the board of directors of Swift Foods (or a committee thereof) to have a direct and significant effect on the financial development of Swift Foods and subsidiaries. In addition, non-employee directors of Swift Foods who are eligible for awards under the Option Plan may elect to receive options under the plan in lieu of any annual fee for services as a director of Swift Foods.

A total of 21.5 million shares of common stock of Swift Foods are available for grant under the Option Plan. Both incentive stock options and nonqualified stock options may be granted under the Option Plan. The board of directors of Swift Foods (or a committee thereof) will administer and interpret the Option Plan and will determine, in its discretion, the employees and eligible non-employees who will receive grants, the number of shares subject to each option granted, the exercise price, and the option period (which may not be more than ten years from the date the option is granted). Stock options generally vest 25% upon grant and 1/36<sup>th</sup> per month beginning on the last day of the month following the month in which the first annual anniversary of the grant date occurs so that upon the fourth anniversary of the grant date, all shares will be fully vested.

Stock option activity for the thirty-nine weeks ended February 25, 2007 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)
Options outstanding, May 28, 2006	18,224,988	\$0.50	
Granted	2,500,000	\$1.01	
Exercised	—	—	
Options outstanding, February 25, 2007	<u>20,724,988</u>	\$0.56	6.9
Exercisable	<u>13,984,280</u>	\$0.35	6.0
Available for future grant	<u>775,012</u>		

During the thirteen and thirty-nine weeks ended February 25, 2007, the Board of Directors of Swift Foods, the ultimate parent of Swift Holdings, granted no options and 2,500,000 options to members of management, respectively. Stock based compensation expense recognized under SFAS No. 123(R) in the statements of earnings for the thirteen and thirty-nine weeks ended February 25, 2007 totaled \$0.1 million and \$0.6 million, respectively. The fair value of options vested during the thirteen and thirty-nine weeks ended February 25, 2007 was \$0.1 million and \$0.6 million, respectively.

Stock based compensation expense recognized under SFAS No. 123 in the statements of earnings for the thirteen and thirty-nine weeks ended February 26, 2006 totaled \$0.1 million with a \$52 thousand related tax benefit and \$0.4 million with a \$0.2 million related tax benefit, respectively.

As allowed for entities with no publicly traded equity securities, Swift Holdings used a zero volatility factor in estimating the value of Swift Foods' stock options for the thirty-nine weeks ended February 26, 2006. Risk free interest rates are based on the Treasury bond rate over the option's expected term. Swift Holdings calculates the fair value of Swift Foods' stock options using the Black-Scholes-Merton option pricing model. Since Swift Foods is not a publicly traded company, it is unable to calculate the historical volatility of its common stock. Beginning May 29, 2006, Swift Holdings evaluated the historical volatility of companies within the protein industry. The average volatility of the common stock of these companies was used for the volatility assumption of Swift Foods. Weighted average assumptions used in the fair value calculation are outlined in the table below.

	Thirty-Nine Weeks Ended	
	February 26, 2006	February 25, 2007
	Under SFAS No. 123	Under SFAS No. 123(R)
Weighted average expected lives of options	3.3 years	4 years
Weighted average risk-free interest rate	3.8%	4.8%
Range of risk-free interest rates (i)	3.7% - 4.1%	4.7% - 4.8%
Weighted average expected volatility	0.0%	32.0% - 33.0%
Range of expected volatility	0.0%	23.5% - 43.7%
Expected dividend yield	0.0	0.0%

(i) Stock options were granted on two different dates during both the thirty-nine weeks ended February 26, 2006 and February 25, 2007.

As of February 25, 2007, Swift Holdings had \$1.1 million of total unrecognized compensation cost related to stock option grants that will be recognized over a weighted average period of 2.2 years.

The weighted average per share fair value of options granted during the thirty-nine weeks ended February 26, 2006 and February 25, 2007 was \$0.12 and \$0.33, respectively.

### ***Plant Closure***

In August 2005, Swift Operating announced the immediate closure of its Nampa, Idaho non-fed cattle processing facility. Swift Operating recognized costs associated with the closure of \$3.1 million consisting of \$2.5 million one-time severance and \$0.6 million plant closure costs during the thirty-nine weeks ended February 26, 2006. These assets were subsequently sold to XL Foods, Inc. (“XL Foods”) on May 26, 2006, the end of Swift Operating’s fiscal year 2006. In connection with the sale, Swift Operating agreed to reimburse XL Foods for costs associated with re-commissioning the former Nampa facility, up to a certain threshold. Swift Operating was notified in November 2006 of XL Foods’ intent to re-commission the Nampa facility, therefore Swift Operating has recognized \$0.7 million of expense in the statement of earnings for the thirty-nine weeks ended February 25, 2007. Swift Operating also recognized \$0.8 million for a liability to the multi-employer pension plan associated with certain former employees of the Nampa facility upon receipt of notice that the plan was underfunded.

### ***Settlement Received***

In October 2005, Swift Operating received a \$2.3 million full and final settlement from a suit against linerboard manufacturers who were alleged to have violated anti-trust laws related to price fixing. Linerboard is the material from which corrugated boxes are made and in which Swift Operating ships the majority of its finished goods. These proceeds were reflected as a reduction of cost of goods sold during the thirty-nine weeks ended February 26, 2006 since the amount represented a reimbursement of excess costs previously charged against cost of goods sold.

## **NOTE 2. DERIVATIVE FINANCIAL INSTRUMENTS**

Swift Operating is exposed to market risk such as changes in commodity prices, foreign currency exchange rates, and interest rate risk. To manage volatility associated with these exposures, Swift Operating may enter into various derivative transactions pursuant to established company policies. Derivatives that qualify and are designated for hedge accounting under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS No. 133”), are measured at fair value and reported as a component of other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. Hedges that do not qualify, or are not designated, for hedge accounting are measured at fair value and the gain or loss is recognized currently into earnings. Gains and losses from energy and livestock derivatives are recognized in the statement of earnings as a component of cost of goods sold upon change in fair value. Gains and losses from foreign currency derivatives are recognized in the statement of earnings as a component of net sales or as a component of other comprehensive income upon change in fair value.

The fair value of derivative assets is recognized within other current assets while the fair value of derivative liabilities is recognized within accrued liabilities. Cash flows from derivative transactions are classified according to the nature of the risk being hedged. At May 28, 2006 and February 25, 2007, the fair value of derivatives recognized within other current assets was \$4.9 million and \$8.3 million, respectively. The fair value of derivatives recognized within accrued liabilities was \$5.6 million and \$4.9 million, respectively. In the first quarter of fiscal 2004, Swift Operating entered into a \$100.0 million notional amount interest rate swap to change the characteristics of a portion of its senior debt from fixed rate debt to variable rate debt. This action was taken in order to achieve a fixed/floating rate debt target deemed appropriate for the business. The mix of fixed rate and variable rate debt is continuously monitored by management to achieve the fixed/floating rate target. The maturity date of the interest rate swap is October 2007 and the floating rate is calculated based on the six-month USD LIBOR set on the last day of each calculation period plus a fixed spread. The fair value of the interest rate swap can change dramatically based on a number of variables, including significant change in the shape of the yield curve and the passage of time. The interest rate swap does not qualify for hedge accounting. For the thirteen weeks ended February 26, 2006 and February 25, 2007, Swift Operating recognized, in interest expense, amounts of \$0.8 million and \$0.3 million, respectively, related to the swap. For the thirty-nine weeks ended February 26, 2006 and February 25, 2007, Swift Operating recognized, in interest expense, amounts of \$2.2 million and \$0.1 million, respectively, related to the swap. At May 28, 2006 and February 25, 2007, the fair value of the interest rate swap recognized within accrued liabilities was \$2.6 million and \$2.0 million, respectively.

During fiscal 2004, Swift Operating began a policy of entering into forward contracts to hedge its exposure to gains and losses related to the currency impacts of US dollar denominated revolving intercompany borrowings with its Australian subsidiary. Changes

in the fair value of these contracts are recorded in the statements of earnings as an offset to translation gains or losses on intercompany borrowings.

As of May 28, 2006 and February 25, 2007, the net deferred amount of derivative gains and losses recognized in accumulated other comprehensive income was \$0.1 million net of tax gain and \$0.2 million net of tax gain, respectively. Swift Operating anticipates gains of \$0.2 million, net of tax, will be transferred out of accumulated other comprehensive income and recognized within earnings over the next 12 months.

Swift Operating requires various raw materials in its operations, including cattle, hogs and energy, such as natural gas, electricity and diesel fuel, which are all considered commodities. Swift Operating considers these raw materials generally available from a number of different sources and believes it can obtain them to meet its requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond its control, such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. Generally, Swift Operating hedges a portion of its anticipated consumption of commodity inputs for periods of up to 12 months. Swift Operating may enter into longer-term derivatives on particular commodities if deemed appropriate. As of February 25, 2007, Swift Operating had derivative positions in place covering approximately 1% of its anticipated need for livestock and 12% of its anticipated need for diesel fuel through February 2008. As of February 25, 2007, Swift Operating had contracts to purchase 100% of its anticipated need for natural gas and diesel fuel through February 2008.

### NOTE 3. LONG-TERM DEBT AND LOAN AGREEMENTS

The major components of debt are as follows (in thousands):

	<u>May 28, 2006</u>	<u>February 25, 2007</u>
<b>Current portion of long-term debt:</b>		
Current portion of installment notes payable	\$ 209	\$ 468
Current portion of capital lease obligations	1,593	1,495
Current portion of long-term debt	<u>1,802</u>	<u>1,963</u>
<b>Long-term debt:</b>		
Revolving credit facility	276,295	248,148
Senior notes due 2009, net of unaccreted discount	259,745	261,612
Senior notes due 2010, net of unaccreted discount	111,101	117,819
Senior subordinated notes	150,000	150,000
Long-term portion of installment notes payable	11,359	10,832
Long-term capital lease obligations	16,484	15,414
Long-term debt, less current portion	<u>824,984</u>	<u>803,825</u>
<b>Total debt</b>	<u>\$ 826,786</u>	<u>\$ 805,788</u>

As of February 25, 2007, Swift Operating had approximately \$248.1 million of secured debt outstanding, approximately \$24.7 million of outstanding letters of credit, and approximately \$277.2 million of availability under its revolving credit facility.

A summary of the components of interest expense is presented below (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	February 26, 2006	February 25, 2007	February 26, 2006	February 25, 2007
Interest on:				
Revolving credit facility (approximately 6.8%, 7.5%, 6.2%, and 7.4%)	\$ 4,611	\$ 4,696	\$ 11,349	\$ 16,112
Senior notes due 2009 (10.125% rate)	6,784	6,784	20,309	20,309
Senior notes due 2010 (12.0%, 12.0%, 11.4%, and 12.0% rate) (i)	3,167	3,559	8,948	10,237
Senior subordinated notes (12.5% rate)	4,687	4,688	14,035	14,036
Capital lease interest	406	375	1,235	1,152
Other miscellaneous interest charges	160	259	546	782
Interest rate swap	767	347	2,222	147
Amortization of deferred financing costs	1,406	1,485	4,468	4,429
Accretion of original issue discount	635	635	1,905	1,905
Less: Capitalized interest	(86)	(172)	(315)	(309)
Interest income	(218)	(391)	(908)	(904)
Total interest expense, net	<u>\$ 22,319</u>	<u>\$ 22,265</u>	<u>\$ 63,794</u>	<u>\$ 67,896</u>

(i) The senior notes due 2010 are issued by Swift Holdings and guaranteed by Swift Foods. This guarantee expired on September 11, 2006.

*Guarantee of Debt of Indirect Parent* — On March 11, 2005, Swift Foods issued \$75.0 million of 10.25% convertible senior subordinated notes. The convertible notes are guaranteed by Swift Holdings.

*Financial Covenants* - Swift Operating's senior credit facilities and the indentures governing the notes issued by Swift Holdings and Swift Operating contain financial covenants that limit the ability of Swift Holdings and its subsidiaries to incur additional indebtedness, sell or dispose of assets, pay certain dividends, and prepay or amend certain indebtedness among other matters. As of February 25, 2007, Swift Holdings and its subsidiaries were in compliance with all financial covenants.

#### NOTE 4. RELATED PARTY TRANSACTIONS

*Monitoring and Oversight Agreement* — In connection with the Transaction, Swift Operating and certain of its direct and indirect parents and subsidiaries entered into a ten-year agreement with an affiliate of HM Capital Partners, LLC (formerly known as Hicks, Muse, Tate & Furst, Incorporated) ("Hicks Muse Partners") pursuant to which Swift Operating will pay Hicks Muse Partners an annual fee for ongoing monitoring and oversight and services provided to it. The annual fee will be adjusted at the beginning of each fiscal year to an amount equal to the greater of (a) \$2 million or (b) 1% of the budgeted consolidated annual EBITDA of Swift Foods and its subsidiaries. The annual fee will also be adjusted in the event that Swift Foods or any of its subsidiaries acquires another entity or business during the term of the agreement. This expense is paid in advance quarterly. Selling, general, and administrative expenses for the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007 include \$0.6 million, \$1.8 million, \$0.5 million, and \$1.5 million, respectively, related to this agreement.

*Indemnity Side Letter* — In connection with the closing of the Transaction, ConAgra Foods agreed to reimburse Swift Operating to the extent recall costs incurred after the Transaction exceed the accrual made for estimated recall costs pursuant to the purchase agreement relating to the Transaction, and Swift Operating agreed to reimburse ConAgra Foods to the extent the accrual exceeds the recall costs. ConAgra Foods has further agreed to indemnify Swift Operating for liabilities, costs, and expenses that it may incur with respect to third parties in connection with product liability claims or personal injury causes of action arising from the consumption of

the products subject to the recall. At February 25, 2007, Swift Operating had a \$1.6 million receivable from ConAgra Foods for reimbursement of amounts in excess of the accrual which represents additional claims from customers who received reimbursement for recall related costs from Swift Operating.

### ***Transactions with Parent Company***

*Dividends to Parent Company* — The Board of Directors of Swift Operating authorized the payment of a dividend of \$6.8 million during the fiscal year ended May 29, 2005, to be paid in the thirteen weeks ended August 28, 2005, in connection with the departure of its former chief executive officer and president. The authorization resulted in a reduction of retained earnings of \$6.8 million in fiscal 2005. The dividend was subsequently distributed to Swift Foods to fund Swift Foods' repurchase of Swift Foods' common stock and options held by the former president and chief executive officer.

During the thirteen weeks ended November 27, 2005, a dividend of \$0.4 million was declared and paid by Swift Operating to Swift Foods to fund debt interest payments on Swift Foods convertible senior subordinated notes.

During the thirteen weeks ended November 26, 2006, Swift Operating paid a dividend of \$250 thousand to Swift Foods to fund the repurchase of Swift Foods' common stock from a former executive of Swift Foods and its subsidiaries, including Swift Holdings.

*Guarantee* – In connection with Swift Holdings' issuance of \$105.0 million of senior notes due March 2010, on March 11, 2005, Swift Foods, an indirect parent of Swift Holdings, issued a guarantee of the senior notes (see Note 3). If Swift Holdings is unable to perform under the senior notes indenture, Swift Foods would be required to satisfy the obligation. This guarantee expired on September 11, 2006.

*Guarantee of Debt of Indirect Parent* — On March 11, 2005, Swift Foods issued \$75.0 million of 10.25% convertible senior subordinated notes. The convertible notes are guaranteed by Swift Holdings. The maximum potential amount of future payments that Swift Holdings would be required to make under the guarantee of Swift Foods' convertible notes totaled \$128.9 million at May 28, 2006 and February 25, 2007. The likelihood of material payments under this guarantee is not considered probable.

*Surety Guarantee* – On December 16, 2005, Swift Foods and Swift Holdings issued a parental guarantee to certain surety insurance carriers related to the livestock surety bonds of their subsidiary Swift Operating. The livestock bonds are required by the Packers & Stockyards Administration of the US Department of Agriculture under the Packers and Stockyards Act of 1921 and would be triggered only in the event that Swift Operating failed to properly pay livestock producers for animals delivered to its plants.

*Payables and Receivables with Parent* – In connection with the issuance of Swift Holdings' \$105.0 million of senior notes due March 2010 in fiscal 2005, Swift Foods, an indirect parent of Swift Holdings, paid certain debt issuance costs on behalf of Swift Holdings. These costs are reflected as a payable to related party in the May 28, 2006 and February 25, 2007 consolidated balance sheets.

### ***Transactions with Affiliated Companies***

During the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007, Swift Operating purchased \$1.0 million, \$1.2 million, \$1.0 million and \$2.9 million of cattle hides, respectively, and \$41 thousand, \$0.1 million, \$0.1 million and \$0.3 million of commodity product, respectively, from Coleman Natural Meats ("Coleman"), an independent meat packing company controlled by the chairman of the board of Swift Foods and its subsidiaries. In addition, it provided certain further processing capabilities to Coleman in the amount of \$0.1 million and \$0.2 million during the thirteen and thirty-nine weeks ended February 26, 2006, respectively. Such services were performed on a cost reimbursement basis. There was no further processing provided to Coleman in the thirteen and thirty-nine weeks ended February 25, 2007.

In September 2005, Swift Foods purchased a claim of Snow Ball Foods, LLC ("Snow Ball") against an unrelated third party. Booth Creek Management, an affiliate of George N. Gillett, Jr., the chairman of the board of Swift Foods and its subsidiaries, owns an indirect equity interest in both Snow Ball and Swift Foods. Swift Foods paid Snow Ball \$0.2 million in September 2005 and issued a promissory note for an additional \$0.2 million which was paid to Snow Ball in October 2006. Swift Operating, an indirect subsidiary of Swift Foods, agreed to reimburse Swift Foods for these amounts and recognized an expense of \$0.4 million which is included in Swift Holdings' results of operations for the thirty-nine weeks ended February 26, 2006.

During the thirty-nine weeks ended February 25, 2007, Swift Operating paid commissions totaling \$146 thousand to Swett & Crawford, an intermediary insurance broker owned by HMSC Investments, L.P., an affiliate of Hicks Muse Partners, one of Swift

Operating's equity sponsors. The commissions were earned by Swett & Crawford for placing insurance coverage with third-party carriers at market rates. No commissions were earned and paid to Swett & Crawford in the thirteen weeks ended February 25, 2007.

#### **NOTE 5. LEGAL PROCEEDINGS**

On July 1, 2002, a lawsuit was filed against ConAgra Beef Company (which was part of the businesses acquired in the Transaction and renamed Swift Beef Company), Tyson Foods, Inc., Excel Company, and Farmland National Beef Packing Company, L.P. in the United States District Court of South Dakota seeking certification of a class of all persons who sold cattle to the defendants for cash, or on a basis affected by the cash price for cattle, during the period from April 2, 2001 through May 11, 2001 and for some period up to two weeks thereafter. The case was filed by three named plaintiffs on behalf of a nationwide class that plaintiffs estimate is comprised of hundreds or thousands of members. The complaint alleges that the defendants, in violation of the Packers and Stockyards Act of 1921, knowingly used, without correction or disclosure, incorrect and misleading boxed beef price information generated by the United States Department of Agriculture to purchase cattle offered for sale by the plaintiffs at a price substantially lower than was justified by the actual and correct price of boxed beef during this period. The plaintiffs seek an estimated \$9.2 million in actual damages against Swift Beef under various causes of action, including restitution based on equitable principles of unjust enrichment. The plaintiffs also seek attorneys' fees and expenses. On April 12, 2006, the jury returned a verdict against three of the four defendants, including a \$2.3 million verdict against Swift Beef. The court issued a final order of judgment on February 14, 2007. Although Swift Beef has begun the process of appealing this judgment, a liability for the amount of the verdict was recorded during the final thirteen weeks of the fiscal year ended May 28, 2006. ConAgra Foods will indemnify Swift Operating against any judgments for monetary damages or settlements arising out of this litigation or any future litigation filed against ConAgra Foods, the businesses acquired in the Transaction, Swift Operating or certain of its affiliates that is based primarily on the substantive facts of this litigation to the extent that the litigation seeks damages resulting from the activities of ConAgra Foods or the businesses acquired in the Transaction prior to the acquisition of these entities to the extent such damages together with any other indemnifiable claims under the acquisition agreement entered into to effect the Transaction exceed a minimum threshold of \$7.5 million. Swift Operating believes that Swift Beef Company has acted properly and lawfully in its dealings with cattle producers.

Swift Operating is also a party to a number of other lawsuits and claims arising out of the operation of its businesses. Management believes the ultimate resolution of such matters should not have a material adverse effect on Swift Operating's financial condition, results of operations, or liquidity. Attorney fees are expensed as incurred.

#### **NOTE 6. BUSINESS SEGMENTS**

Swift Operating is organized into three operating segments, which are also Swift Operating's reportable segments: Swift Beef, Swift Pork, and Swift Australia. Segment operating performance is evaluated by the Chief Operating Decision Maker ("CODM"), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, based on Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). All intersegment sales and transfers are eliminated in consolidation.

*Swift Beef* — The majority of Swift Beef's revenues are generated from the sale of fresh meat, which include chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. In addition, Swift Beef sells beef by-products to the variety meat, feed processing, fertilizer, automotive, and pet food industries.

In August 2005, Swift Operating closed its Nampa, Idaho non-fed cattle processing facility. The closure was due to continued difficulty of sourcing older non-fed cattle for slaughter in the Northwestern US and the uncertainty surrounding the opening of the Canadian border to the importation of livestock older than 30 months of age. On May 26, 2006, Swift Operating completed the sale of the idled Nampa facility as well as the operating Omaha, Nebraska non-fed cattle processing facility. Due to significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants have been reflected in continuing operations for all periods presented.

*Swift Pork* — A significant portion of Swift Pork's revenues are generated from the sale of products predominantly to retailers of fresh pork including trimmed cuts such as loins, roasts, chops, butts, picnics, and ribs. Other pork products, including hams, bellies, and trimmings are sold predominantly to further processors who, in turn, manufacture bacon, sausage, and deli and luncheon meats. The remaining sales are derived from by-products and from the sales of further-processed, higher-margin products.

*Swift Australia* — The majority of Swift Australia's revenues are generated by the meat processing division from the sale of fresh meat, which includes chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. The foods division produces value-added meat products including toppings for pizzas. The wholesale trading division trades in boxed meat products to brokers and retailers who resell those products to end customers.

*Corporate and Other* — Includes certain revenues and expenses not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

The following table presents segment results for the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007 (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	February 26, 2006	February 25, 2007	February 26, 2006	February 25, 2007
<b>Net sales</b>				
Swift Beef	\$ 1,383,301	\$ 1,164,779	\$ 4,129,477	\$ 4,158,197
Swift Pork	496,639	511,045	1,560,605	1,601,825
Swift Australia	373,565	425,692	1,299,931	1,419,270
Corporate and Other	(9,253)	(11,149)	(32,913)	(31,433)
<b>Total</b>	<u>\$ 2,244,252</u>	<u>\$ 2,090,367</u>	<u>\$ 6,957,100</u>	<u>\$ 7,147,859</u>
<b>Depreciation and amortization</b>				
Swift Beef	\$ 11,169	\$ 9,586	\$ 33,417	\$ 29,271
Swift Pork	4,899	4,392	14,719	13,368
Swift Australia	4,082	4,685	12,213	13,416
Corporate and Other	—	—	—	—
<b>Total</b>	<u>\$ 20,150</u>	<u>\$ 18,663</u>	<u>\$ 60,349</u>	<u>\$ 56,055</u>
<b>EBITDA</b>				
Swift Beef	\$ (52,554)	\$ (29,032)	\$ (78,186)	\$ (10,585)
Swift Pork	16,354	7,605	58,172	45,232
Swift Australia	6,418	12,421	21,370	42,279
Corporate and Other	—	—	—	—
<b>Total</b>	<u>(29,782)</u>	<u>(9,006)</u>	<u>1,356</u>	<u>76,926</u>
Interest expense, net	(22,319)	(22,265)	(63,794)	(67,896)
Depreciation and amortization	(20,150)	(18,663)	(60,349)	(56,055)
<b>Total loss before income taxes</b>	<u>\$ (72,251)</u>	<u>\$ (49,934)</u>	<u>\$ (122,787)</u>	<u>\$ (47,025)</u>

Total assets by segment are as follows (in thousands):

	May 28, 2006	February 25, 2007
<b>Total assets</b>		
Swift Beef	\$ 759,300	\$ 676,973
Swift Pork	291,745	273,552
Swift Australia	525,597	513,789
Corporate and Other	383,727	464,366
Eliminations	(430,128)	(513,077)
<b>Total</b>	<u>\$ 1,530,241</u>	<u>\$ 1,415,603</u>

*Corporate and Other* — Includes certain assets not directly attributable to the primary segments as well as the parent companies' investments in each operating subsidiary.

*Eliminations* — Includes eliminations resulting from the consolidation process.

## NOTE 7. SUPPLEMENTAL GUARANTOR INFORMATION

A significant amount of Swift Operating's income and cash flow is generated by its subsidiaries. As a result, funds necessary to meet Swift Operating's debt service obligations, including its obligations under the senior credit facility, the senior notes due 2009, and the senior subordinated notes described above in Note 3, are provided in large part by distributions or advances from its subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as Swift Operating's financial condition and operating requirements and those of certain domestic subsidiaries could limit Swift Operating's ability to obtain cash for the purpose of meeting its debt service obligation including the payment of principal and interest on the senior credit facility, the senior notes, and the senior subordinated notes.

The following condensed financial statements set forth Swift Operating's balance sheets as of May 28, 2006 and February 25, 2007, statements of earnings for the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007 and statements of cash flows for the thirty-nine weeks ended February 26, 2006 and February 25, 2007. Effective with the date of the Transaction, Swift Operating's senior notes due 2009 and senior subordinated notes have been guaranteed by Swift Holdings (the "Parent Guarantor") and each of Swift Operating's domestic subsidiaries (the "Subsidiary Guarantors"). The financial information is presented under the following column headings: Parent Guarantor, Issuer, Subsidiary Guarantors, and Subsidiary Non-Guarantors. "Subsidiary Non-Guarantors" include only the foreign subsidiaries of Swift Operating, which include Swift Refrigerated Foods S.A. de C.V., Kabushiki Kaisha SAC Japan, and Australia Meat Holdings Pty. Ltd. Investments in Swift Operating's subsidiaries are accounted for on the equity method. Accordingly, entries necessary to consolidate the Parent Guarantor, Swift Operating, and all of its subsidiaries are reflected in the elimination column. Separate complete financial statements of Swift Operating and the Subsidiary Guarantors would not provide additional material information that would be useful in assessing the financial composition of Swift Operating or the Subsidiary Guarantors.

All of the Subsidiary Guarantors are wholly-owned subsidiaries of Swift Operating and their guarantees are full and unconditional, and joint and several. There are no provisions in the indentures governing the senior notes or senior subordinated notes or other existing agreements that would prevent holders of guaranteed obligations from taking immediate action against the Parent Guarantor or any Subsidiary Guarantor in the event of default. The ability of the Subsidiary Guarantors to pay dividends or make loans or other payments to Swift Operating depends on their earnings, capital requirements, and general financial condition. The senior credit facilities and the indentures governing the senior notes due 2009 and the senior subordinated notes limit the ability of Swift Operating and its subsidiaries to restrict the ability of the Subsidiary Guarantors to pay dividends or make loans or other advances to Swift Operating, subject to applicable laws and regulations and future agreements to which the Subsidiary Guarantors may be a party. The Parent Guarantor is a holding company with no operations of its own, and its assets consist of financing costs associated with, and the capital stock of, Swift Operating. Consequently, its ability to pay amounts under its guarantee depends on the earnings and cash flows of Swift Operating and its subsidiaries and the ability of these entities to pay dividends or advance funds to the Parent Guarantor.

As a portion of the financing related to the acquisition of the Australian operations in conjunction with the Transaction described in Note 1, for the thirteen weeks ended February 26, 2006 and February 25, 2007, amounts of \$2.6 million and for the thirty-nine weeks ended February 26, 2006 and February 25, 2007, amounts of \$7.7 million were reflected as interest expense of the Subsidiary Non-Guarantors. Corresponding interest income of \$2.6 million for the thirteen weeks ended February 26, 2006 and February 25, 2007 and \$7.7 million for the thirty-nine weeks ended February 26, 2006 and February 25, 2007 were reflected for the Subsidiary Guarantors, in the accompanying statements of earnings.

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**BALANCE SHEET**  
**MAY 28, 2006**  
**(in thousands)**

	<u>Swift Holdings Parent Guarantor</u>	<u>Swift Operating Issuer</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non- Guarantors</u>	<u>Eliminations/ Adjustments</u>	<u>Total</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 44,074	\$ 1,429	\$ 6,178	\$ —	\$ 51,681
Accounts receivable, net	—	3,761	283,825	80,800	(1,642)	366,744
Inventories	—	—	312,014	191,412	—	503,426
Other current assets	—	11,005	82,461	8,562	(61,090)	40,938
Total current assets	—	58,840	679,729	286,952	(62,732)	962,789
Property, plant, and equipment, net	—	—	340,138	170,783	—	510,921
Intercompany receivable	15,492	846,581	—	—	(862,073)	—
Goodwill	—	—	12,681	—	—	12,681
Other intangibles, net	—	—	16,695	5,675	—	22,370
Other assets	2,727	133,144	705	4,048	(119,144)	21,480
Net investment and advances in subsidiaries	289,294	54,210	—	—	(343,504)	—
Total assets	<u>\$ 307,513</u>	<u>\$1,092,775</u>	<u>\$1,049,948</u>	<u>\$ 467,458</u>	<u>\$(1,387,453)</u>	<u>\$1,530,241</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$ —	\$ 209	\$ 1,593	\$ —	\$ —	\$ 1,802
Accounts payable	3,461	8,218	173,945	72,518	—	258,142
Intercompany payable	—	—	836,436	25,637	(862,073)	—
Accrued liabilities	1,016	137,642	82,818	53,833	(62,732)	212,577
Total current liabilities	4,477	146,069	1,094,792	151,988	(924,805)	472,521
Long-term debt, less current portion	111,101	656,104	16,484	126,219	(84,924)	824,984
Other non-current liabilities	—	1,308	65,654	8,059	(34,220)	40,801
Total liabilities	<u>115,578</u>	<u>803,481</u>	<u>1,176,930</u>	<u>286,266</u>	<u>(1,043,949)</u>	<u>1,338,306</u>
Commitments and contingencies (Notes 3 and 5)						
Common stock	—	—	2	75,000	(75,002)	—
Additional paid-in capital	263,083	360,442	—	—	(360,442)	263,083
Retained earnings (accumulated deficit)	(119,263)	(119,263)	(126,992)	42,176	204,079	(119,263)
Accumulated other comprehensive income	48,115	48,115	8	64,016	(112,139)	48,115
Total stockholder's equity	<u>191,935</u>	<u>289,294</u>	<u>(126,982)</u>	<u>181,192</u>	<u>(343,504)</u>	<u>191,935</u>
Total liabilities and stockholder's equity	<u>\$ 307,513</u>	<u>\$1,092,775</u>	<u>\$1,049,948</u>	<u>\$ 467,458</u>	<u>\$(1,387,453)</u>	<u>\$1,530,241</u>

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**BALANCE SHEET**  
**February 25, 2007**  
**(in thousands)**  
**(unaudited)**

	<u>Swift Holdings Parent Guarantor</u>	<u>Swift Operating Issuer</u>	<u>Subsidiary Guarantors</u>	<u>Subsidiary Non- Guarantors</u>	<u>Eliminations/ Adjustments</u>	<u>Total</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 39,059	\$ 1,137	\$ 6,491	\$ —	\$ 46,687
Accounts receivable, net	—	6,583	225,955	91,217	(4,190)	319,565
Inventories	—	—	268,363	192,630	—	460,993
Other current assets	—	17,911	85,236	4,245	(67,580)	39,812
Total current assets	—	63,553	580,691	294,583	(71,770)	867,057
Property, plant, and equipment, net	—	—	319,054	174,705	—	493,759
Intercompany receivable	26,034	831,757	—	—	(857,791)	—
Goodwill	—	—	12,681	—	—	12,681
Other intangibles, net	—	—	11,842	5,520	—	17,362
Other assets	2,189	129,479	9,376	2,344	(118,644)	24,744
Net investment and advances in subsidiaries	249,846	19,141	—	—	(268,987)	—
Total assets	<u>\$ 278,069</u>	<u>\$1,043,930</u>	<u>\$ 933,644</u>	<u>\$ 477,152</u>	<u>\$(1,317,192)</u>	<u>\$1,415,603</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$ —	\$ 468	\$ 1,495	\$ —	\$ —	\$ 1,963
Accounts payable	3,187	8,129	135,834	60,404	—	207,554
Intercompany payable	—	—	819,905	37,886	(857,791)	—
Accrued liabilities	4,577	133,556	74,597	62,671	(71,770)	203,631
Total current liabilities	7,764	142,153	1,031,831	160,961	(929,561)	413,148
Long-term debt, less current portion	117,818	646,444	15,414	109,073	(84,924)	803,825
Other non-current liabilities	—	5,487	65,704	8,672	(33,720)	46,143
Total liabilities	125,582	794,084	1,112,949	278,706	(1,048,205)	1,263,116
Commitments and contingencies (Notes 3 and 5)						
Common stock	—	—	2	75,000	(75,002)	—
Additional paid-in capital	263,444	360,803	—	—	(360,803)	263,444
Retained earnings (accumulated deficit)	(167,850)	(167,850)	(179,328)	45,925	301,253	(167,850)
Accumulated other comprehensive income	56,893	56,893	21	77,521	(134,435)	56,893
Total stockholder's equity	152,487	249,846	(179,305)	198,446	(268,987)	152,487
Total liabilities and stockholder's equity	<u>\$ 278,069</u>	<u>\$1,043,930</u>	<u>\$ 933,644</u>	<u>\$ 477,152</u>	<u>\$(1,317,192)</u>	<u>\$1,415,603</u>

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**STATEMENTS OF EARNINGS (LOSSES)**  
(in thousands)  
(unaudited)

	Thirteen Weeks Ended February 26, 2006					
	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net sales	\$ —	\$ —	\$1,955,876	\$ 288,376	\$ —	\$2,244,252
Cost of goods sold	—	—	1,975,571	280,212	—	2,255,783
Gross profit (loss)	—	—	(19,695)	8,164	—	(11,531)
Selling, general, and administrative	—	—	32,340	6,039	—	38,379
Translation (gains) losses	—	—	(1)	23	—	22
Interest expense, net	—	—	15,697	6,622	—	22,319
Total other expenses	—	—	48,036	12,684	—	60,720
Loss before income taxes	—	—	(67,731)	(4,520)	—	(72,251)
Income tax benefit	—	—	(21,544)	(1,356)	—	(22,900)
Loss before equity in earnings of unconsolidated subsidiaries	—	—	(46,187)	(3,164)	—	(49,351)
Equity in losses of unconsolidated subsidiaries	(49,351)	(49,351)	—	—	98,702	—
Net loss	<u>\$ (49,351)</u>	<u>\$ (49,351)</u>	<u>\$ (46,187)</u>	<u>\$ (3,164)</u>	<u>\$ 98,702</u>	<u>\$ (49,351)</u>

	Thirty-Nine Weeks Ended February 26, 2006					
	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net sales	\$ —	\$ —	\$5,952,389	\$1,004,711	\$ —	\$6,957,100
Cost of goods sold	—	—	5,923,758	978,547	—	6,902,305
Gross profit	—	—	28,631	26,164	—	54,795
Selling, general, and administrative	—	—	95,412	18,151	—	113,563
Translation losses	—	—	5	220	—	225
Interest expense, net	—	—	45,217	18,577	—	63,794
Total other expenses	—	—	140,634	36,948	—	177,582
Loss before income taxes	—	—	(112,003)	(10,784)	—	(122,787)
Income tax benefit	—	—	(39,274)	(3,235)	—	(42,509)
Loss before equity in earnings of unconsolidated subsidiaries	—	—	(72,729)	(7,549)	—	(80,278)
Equity in losses of unconsolidated subsidiaries	(80,278)	(80,278)	—	—	160,556	—
Net loss	<u>\$ (80,278)</u>	<u>\$ (80,278)</u>	<u>\$ (72,729)</u>	<u>\$ (7,549)</u>	<u>\$ 160,556</u>	<u>\$ (80,278)</u>

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**STATEMENTS OF EARNINGS (LOSSES)**  
(in thousands)  
(unaudited)

	Thirteen Weeks Ended February 25, 2007					
	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net sales	\$ —	\$ —	\$1,730,535	\$ 359,832	\$ —	\$2,090,367
Cost of goods sold	—	—	1,739,275	344,816	—	2,084,091
Gross profit (loss)	—	—	(8,740)	15,016	—	6,276
Selling, general, and administrative	—	—	26,856	7,826	—	34,682
Translation (gains) losses	—	—	4	(741)	—	(737)
Interest expense, net	—	—	14,810	7,455	—	22,265
Total other expenses	—	—	41,670	14,540	—	56,210
Income (loss) before income taxes	—	—	(50,410)	476	—	(49,934)
Income tax expense (benefit)	—	—	(1,507)	143	—	(1,364)
Income (loss) before equity in earnings of unconsolidated subsidiaries	—	—	(48,903)	333	—	(48,570)
Equity in losses of unconsolidated subsidiaries	(48,570)	(48,570)	—	—	97,140	—
Net income (loss)	<u>\$ (48,570)</u>	<u>\$ (48,570)</u>	<u>\$ (48,903)</u>	<u>\$ 333</u>	<u>\$ 97,140</u>	<u>\$ (48,570)</u>

	Thirty-Nine Weeks Ended February 25, 2007					
	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net sales	\$ —	\$ —	\$5,958,744	\$1,189,115	\$ —	\$7,147,859
Cost of goods sold	—	—	5,881,206	1,140,766	—	7,021,972
Gross profit	—	—	77,538	48,349	—	125,887
Selling, general, and administrative	—	—	83,909	21,224	—	105,133
Translation (gains) losses	—	—	(8)	(109)	—	(117)
Interest expense, net	—	—	46,018	21,878	—	67,896
Total other expenses	—	—	129,919	42,993	—	172,912
Income (loss) before income taxes	—	—	(52,381)	5,356	—	(47,025)
Income tax expense (benefit)	—	—	(45)	1,607	—	1,562
Income (loss) before equity in earnings of unconsolidated subsidiaries	—	—	(52,336)	3,749	—	(48,587)
Equity in losses of unconsolidated subsidiaries	(48,587)	(48,587)	—	—	97,174	—
Net income (loss)	<u>\$ (48,587)</u>	<u>\$ (48,587)</u>	<u>\$ (52,336)</u>	<u>\$ 3,749</u>	<u>\$ 97,174</u>	<u>\$ (48,587)</u>

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

Thirty-Nine Weeks Ended February 26, 2006

	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net cash flows provided by (used in) operating activities	\$ (1,598)	\$ 12,573	\$ (23,460)	\$ 7,658	\$ (6,082)	\$(10,909)
Cash flows from investing activities:						
Additions to property, plant, and equipment	—	—	(19,221)	(17,231)	—	(36,452)
Proceeds from sales of property, plant, and equipment	—	—	1,781	61	—	1,842
Investment activity with subsidiaries	—	19,003	—	—	(19,003)	—
Notes receivable and other items	—	344	—	—	—	344
Net cash flows provided by (used in) investing activities	—	19,347	(17,440)	(17,170)	(19,003)	(34,266)
Cash flows from financing activities:						
Additions to revolver, net	—	30,000	—	19,501	—	49,501
Payments of debt	—	(169)	(840)	—	—	(1,009)
Change in bank overdraft balances	—	89	(21,567)	(4,131)	—	(25,609)
Dividends paid	—	(7,293)	—	(25,085)	25,085	(7,293)
Net investments and advances/ (distributions)	1,598	(78,691)	62,751	14,342	—	—
Net cash flows provided by (used in) financing activities	1,598	(56,064)	40,344	4,627	25,085	15,590
Effect of exchange rates on cash	—	—	—	(16)	—	(16)
Net change in cash and cash equivalents	—	(24,144)	(556)	(4,901)	—	(29,601)
Cash and cash equivalents, beginning of period	—	68,473	1,592	9,283	—	79,348
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 44,329</u>	<u>\$ 1,036</u>	<u>\$ 4,382</u>	<u>\$ —</u>	<u>\$ 49,747</u>

**S&C HOLDCO 3, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

Thirty-Nine Weeks Ended February 25, 2007

	Swift Holdings Parent Guarantor	Swift Operating Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations/ Adjustments	Total
Net cash flows provided by (used in) operating activities	\$ —	\$(12,636)	\$ 58,463	\$ 20,095	\$ —	\$ 65,922
Cash flows from investing activities:						
Additions to property, plant, and equipment	—	—	(20,534)	(9,631)	—	(30,165)
Proceeds from sales of property, plant, and equipment	—	—	4,105	373	—	4,478
Proceeds from sale of intangible asset	—	—	2,872	—	—	2,872
Net cash flows used in investing activities	—	—	(13,557)	(9,258)	—	(22,815)
Cash flows from financing activities:						
Payments of revolver, net	—	(11,000)	—	(18,176)	—	(29,176)
Payments of debt	—	(329)	(1,168)	—	—	(1,497)
Change in bank overdraft balances	—	(90)	(15,946)	(1,405)	—	(17,441)
Dividend paid	—	(250)	—	—	—	(250)
Net investments and advances/ (distributions)	—	19,290	(28,084)	8,794	—	—
Net cash flows provided by (used in) financing activities	—	7,621	(45,198)	(10,787)	—	(48,364)
Effect of exchange rates on cash	—	—	—	263	—	263
Net change in cash and cash equivalents	—	(5,015)	(292)	313	—	(4,994)
Cash and cash equivalents, beginning of period	—	44,074	1,429	6,178	—	51,681
Cash and cash equivalents, end of period	\$ —	\$ 39,059	\$ 1,137	\$ 6,491	\$ —	\$ 46,687

**NOTE 8. SUBSEQUENT EVENT**

On March 23, 2007, the State of Nebraska environmental regulatory agency notified Swift Operating that it has determined that groundwater remediation is necessary at Swift Operating's former Grand Island Platte River By-Products site. The State has ranked this site as Remedial Action Class I, based on the neighboring home using a well in the area of contamination and is requiring Swift Operating, as the property owner, to submit a remedial action plan by June 29, 2007. The estimated cost of remediation is between \$70 thousand and \$1.1 million. It is unknown if the groundwater contamination is attributable to National By-Products, LLC (the company to whom Swift Operating leased the land) or ConAgra Foods when it was operating the facility. Darling International, Inc. (who acquired National By-Products, LLC) and/or ConAgra Foods may be liable for a portion of the preparation and implementation of any remedial action plan for the site.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cautionary Statement Regarding Forward-Looking Statements

This report contains "forward-looking" statements within the meaning of the federal securities laws. The forward-looking statements include statements concerning our outlook for the future, as well as other statements of beliefs, future plans, and strategies or anticipated events, and similar statements concerning matters that are not historical facts. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the availability and prices of live cattle, hogs, raw materials and supplies, food safety, livestock disease, the competitive environment and related market conditions, hedging risk, operating efficiencies, changes in interest rate and foreign currency exchange rates, compliance with covenants of loan agreements, the cost of compliance with environmental and health standards, adverse results from on-going litigation, and the actions of domestic and foreign governments. Reference is hereby made to the disclosures contained under the heading "Item 1A. Risk Factors" of Swift Holdings' Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on August 18, 2006 and in this Form 10-Q and which should be read in conjunction with this report.

### Where you can find more information

We maintain an internet web site at [www.swiftbrands.com](http://www.swiftbrands.com). The information on this site does not form a part of this Form 10-Q. Our Form 10-Q may be inspected, without charge, at the offices of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such materials may also be obtained by mail at prescribed rates from the Public Reference Room of the SEC at that address. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of such materials may also be obtained from the web site that the SEC maintains at [www.sec.gov](http://www.sec.gov).

### Overview

S&C Holdco 3, Inc. is the operating company owned by Swift Foods Company ("Swift Foods"). Swift Foods owns the red meat business formerly known as The ConAgra Red Meat Business which was acquired by Swift Foods in a series of transactions between September 18, 2002 and September 23, 2004. See Note 1 "Description of Business and Basis of Presentation," of the consolidated financial statements contained in Part I. Item 1. of this Form 10-Q. Swift Foods is owned 82% by HM Capital Partners, LP, 17% by Booth Creek Management, and 1% by management.

The ConAgra Red Meat Business was developed through a series of acquisitions made by ConAgra Foods in the late 1980's and early 1990's. E.A. Miller Enterprises Inc. and Monfort Inc. were both acquired in 1987 to form the foundation of our current domestic beef company. ConAgra Foods acquired Swift Independent Packing Co. during the late 1980's in two separate transactions that formed the foundation of our current domestic pork business and expanded our domestic beef business. Finally, the Australian operations were acquired in three separate transactions during the 1990's. Since the time of the first acquisition, the ConAgra Red Meat Business was operated as a division of ConAgra Foods and included the domestic cattle feeding operations and other assets and liabilities that we did not acquire in the Transaction.

### Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended May 28, 2006.

Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payments* ("SFAS No. 123(R)"), was issued in December 2004 and became effective for us in the first quarter of fiscal 2007. In March 2005, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management issued Staff Accounting Bulletin ("SAB") No. 107, *Share-Based Payment* ("SAB No. 107"), to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R). We applied the principles of SAB No. 107 in conjunction with our adoption of SFAS No. 123(R) in the first quarter of fiscal year 2007. The effects on our consolidated financial statements of adopting SFAS No. 123(R) and SAB No. 107 are discussed in Note 1, "Description of Business and Basis of Presentation" under the section titled "Stock-Based Compensation," of the consolidated financial statements contained in Part I. Item 1. of this Form 10-Q.

In September 2006, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial*

*Statements* (“SAB No. 108”), which became effective for us in fiscal year 2007. See “Recently Issued Accounting Pronouncements,” for discussion of SAB No. 108.

### **Seasonality and Fluctuations in Quarterly Operating Results**

Our quarterly operating results are influenced by seasonal factors in the beef and pork industries. These factors impact the price that we pay for livestock as well as the ultimate price at which we sell our products.

In beef, the seasonal demand for beef products is highest in the summer and fall months as weather patterns permit more outdoor activities and there is typically an increased demand for higher value items that are grilled, such as steaks. Both live cattle prices and boxed beef prices tend to be at seasonal highs during the summer and fall. Because of higher consumption, more favorable growing conditions, and the housing of animals in feedlots for the winter months, there are generally more cattle available in the summer and fall.

The pork business has similar seasonal cycles, but in different months. It takes an average 11 months from conception for a hog to reach market weight. Generally, sows are less productive in summer months resulting in fewer hogs available in the spring and early summer, which causes prices of hogs and boxed pork to rise, but production to fall. The highest demand for pork occurs from October to March, as hog availability and holiday occasions increase the demand for hams, tenderloins and other higher value pork products.

In Australia, seasonal demand does not fluctuate as significantly as it does in the US. There is a slight increase in demand from October through February due to increased demand domestically and in Japan, one of Australia’s primary markets. During the current fiscal year, outside factors, including a prolonged drought and the decision by a competitor to close a plant, have resulted in improved livestock supply at favorable prices following a non-seasonal pattern.

### **Recent Developments**

On December 23, 2003, the United States Department of Agriculture (“USDA”) reported the first apparent case of bovine spongiform encephalopathy (commonly referred to as “mad cow disease” or “BSE”) in the United States. Following the announcement, a number of countries, including Japan, Mexico, South Korea, Australia, Singapore, Malaysia, Russia, and China, temporarily banned the import of US beef. Japan, Mexico, and South Korea historically are the top three importers of US beef by volume according to the USDA. During fiscal 2003 and the six months ended November 23, 2003, periods prior to the import bans, these three countries collectively accounted for approximately 85% and 87%, respectively, of Swift Operating’s US beef exports, representing 11% and 14% of total worldwide beef sales for these periods, respectively.

Taiwan, Hong Kong, and Singapore have subsequently opened their markets to US beef for import of boneless beef from cattle 30 months of age or younger. Mexico approved the imports of bone-in beef during the third quarter of fiscal 2006.

On December 12, 2005, Japan reopened its market to US and Canadian beef for import of cattle 20 months of age or younger. On January 20, 2006, Japan reinstated its ban on imports of all beef products produced in the United States following their discovery that a single packing plant had violated the terms of the agreement reached between the US and Japan governing product specifications. At the end of July 2006, Japan reopened its market to US beef for import of cattle 20 months of age or younger. Although Japanese consumer demand for US beef is higher than expected, the age restriction continues to keep import volumes low. South Korea reopened its market to US beef for import of cattle 30 months of age or younger on September 8, 2006; however, recent shipments by other meatpackers have been rejected by South Korea due to the inclusion of small bone or cartilage fragments as the agreement stipulates all shipments must be boneless. These actions have effectively closed the market to US Beef. We have not made any shipments of beef to South Korea since the announcement of the reopening of the market. The US continues to negotiate with South Korea regarding the standards for shipments of US beef.

We cannot anticipate the duration of remaining beef import bans or whether additional countries may impose similar restrictions. In addition, we cannot presently assess any further economic impact of this occurrence on the US beef industry or on our operations. Our revenues and net income may continue to be materially adversely affected in the event previously announced import restrictions continue indefinitely, additional countries announce similar restrictions, additional regulatory restrictions are put into effect, or domestic consumer demand for beef declines substantially.

On December 12, 2006, as previously reported on our Form 8-K filed with the SEC on December 13, 2006, agents from the US Department of Homeland Security’s Immigration and Customs Enforcement (“ICE”) division and other law enforcement agencies conducted on-site employee interviews at all of our domestic production facilities except Louisville, KY and Santa Fe Springs, CA in

connection with an investigation of the immigration status of an unspecified number of our workers. Approximately 1,300 individuals were detained by ICE and removed from our domestic labor force. No civil or criminal charges have been filed by the government against us or any of our current or former management employees. On December 12, 2006, after a six to seven hour suspension of operations due to the employee interview process, we resumed production at all facilities but at reduced output levels. Production throughput for the pork operations has returned to pre-ICE event levels and production throughput for substantially all of the beef operations is expected to return to pre-ICE event levels by fiscal year end. While we are still recovering from the financial impact, our preliminary estimate of the one-time impact on our full year ended May 27, 2007 of approximately \$20 million resulting primarily from lost operating efficiency as new employees are retrained, plus up to an additional \$10 million expected for employee retention and hiring incentives required to restaff the facilities with production employees, continues to appear reasonable. We do not believe there will be a continuing effect on our business, financial condition, results of operations, and cash flows beyond the current fiscal year.

In January 2007, we implemented an overhead cost reduction program which resulted in the elimination of 70 filled and unfilled corporate positions. This program is expected to result in approximately \$10 million to \$15 million of annualized savings by the end of fiscal year 2008.

In our Form 8-K filed with the SEC on January 23, 2007, we announced that our Board of Directors has engaged JPMorgan to assist in a review of strategic and financial alternatives. In the review process, the Board will consider a full range of possibilities including merger, possible sale, refinancing, or public equity offering. No decision has been made as to which alternative to pursue and it is possible that ultimately there may be no change from the current structure.

### Supplemental Financial Data

The following supplemental financial data is provided to assist in understanding our operating results. EBITDA represents earnings before interest, income taxes, depreciation, and amortization. EBITDA is not intended to represent cash from operations as defined by accounting principles generally accepted in the United States of America (“GAAP”) and should not be considered as an alternative to cash flow or operating income as measured by GAAP. We believe EBITDA provides investors and analysts in the meat processing industry useful information with which to analyze and compare our results on a comparable basis with other companies on the basis of operating performance, leverage, and liquidity. However, since EBITDA is not defined by GAAP, it may not be calculated on the same basis as other similarly titled measures of other companies within the meat processing industry. Last twelve months (“LTM”) represents the last twelve months ending on the most recent balance sheet date. It is not defined by GAAP and should not be considered an alternative to actual fiscal year information. LTM is used by management and our lenders in evaluating the business due to its use in our debt covenants.

The following table sets forth the reconciliation of EBITDA to total income (loss) before income taxes for the periods presented, including the last twelve months (“LTM”) ended February 25, 2007 (in thousands):

	Thirty-Nine Weeks Ended February 26, 2006	Fiscal Year Ended May 28, 2006	Thirty-Nine Weeks Ended February 25, 2007	LTM Ended February 25, 2007 (a)
<b>EBITDA</b>				
Swift Beef	\$ (78,186)	\$ (97,082)	\$ (10,585)	\$ (29,481)
Swift Pork	58,172	73,336	45,232	60,396
Swift Australia	21,370	29,465	42,279	50,374
<b>Total</b>	<u>1,356</u>	<u>5,719</u>	<u>76,926</u>	<u>81,289</u>
Depreciation, amortization, and goodwill impairment charges (b)	(60,349)	(101,127)	(56,055)	(96,833)
Interest expense, net	(63,794)	(87,538)	(67,896)	(91,640)
<b>Total loss before income taxes</b>	<u>\$ (122,787)</u>	<u>\$ (182,946)</u>	<u>\$ (47,025)</u>	<u>\$ (107,184)</u>

(a) This column is derived by deducting the thirty-nine weeks ended February 26, 2006 from the fiscal year ended May 28, 2006, and adding the thirty-nine weeks ended February 25, 2007.

(b) The fiscal year ended May 28, 2006 includes a goodwill impairment charge of \$21.1 million related to the Swift Australia segment.

## Results of Operations

### Thirty-nine weeks ended February 25, 2007 compared to thirty-nine weeks ended February 26, 2006

*Net Sales.* Net sales for the thirty-nine weeks ended February 25, 2007 increased \$190.8 million, or 2.7%, as compared to the thirty-nine weeks ended February 26, 2006, primarily reflecting a 2.5% decrease in beef volume caused, at least in part, by the impact of the December ICE event, offset by a 3.3% increase in beef prices, a 0.6% decrease in pork volumes caused, at least in part, by the impact of the December ICE event, more than offset by a 3.2% increase in pork prices, and an 8.1% increase in volume for Swift Australia coupled with a 1.0% increase in prices. The US dollar to Australian dollar exchange rate increase of approximately 1.6% had a favorable impact on net sales.

*Cost of Goods Sold.* Cost of goods sold increased \$119.7 million, or 1.7%, for the thirty-nine weeks ended February 25, 2007 as compared to the thirty-nine weeks ended February 26, 2006 primarily due to 0.3% higher overall raw material prices partially offset by reduced overall volumes of 0.5%. Cost of goods sold in the current year was also impacted by increases in freight costs due to higher fuel surcharges from common carriers coupled with higher hourly labor and packaging costs which were partially offset by lower utility and insurance related costs. Additionally, for the thirty-nine weeks ended February 25, 2007, the realized and unrealized net gains related to our forward futures contracts for live cattle and hog purchases were \$18.4 million as compared to losses of \$1.7 million for the thirty-nine weeks ended February 26, 2006. The US dollar to Australian dollar exchange rate increase of approximately 1.6% unfavorably impacted cost of goods sold in the current thirty-nine weeks as compared to the same thirty-nine week period of the prior fiscal year.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were 1.8% for the thirty-nine weeks ended February 25, 2007 as compared to 0.8% for the thirty-nine weeks ended February 26, 2006. Gross margin percentage increases in Swift Beef and Swift Australia were partially offset by declines in Swift Pork. Swift Beef gross margin increases were attributable to higher selling prices that more than offset higher raw material and operating costs while Swift Pork gross margin percentage declines were attributable to higher sales prices more than offset by higher raw material and operating costs. Swift Australia gross margin percentage increases were attributable to higher sales prices and lower livestock prices, primarily in the grass-fed operations.

*Selling, General, and Administrative.* Selling, general, and administrative expenses were \$105.1 million for the thirty-nine weeks ended February 25, 2007 as compared to \$113.6 million for the thirty-nine weeks ended February 26, 2006. These expenses decreased by \$8.4 million, or 7.4%, primarily related to reductions in overall professional fees and consulting costs coupled with reductions in employee related costs.

*Interest Expense, Net.* Interest expense for the thirty-nine weeks ended February 25, 2007 was \$67.9 million as compared to \$63.8 million for the thirty-nine weeks ended February 26, 2006. The interest expense increase of \$4.1 million related to increased borrowings under our credit agreement driven by operational declines in the prior fiscal year and higher interest rates in the current period.

*Income Taxes.* For the thirty-nine weeks ended February 25, 2007, our effective tax rate was approximately (3.3)%. We calculate our interim income tax provision in accordance with FASB Interpretation Number ("FIN") 18, *Accounting for Income Taxes in Interim Periods* ("FIN 18"). In accordance with paragraph 22a of FIN 18 and paragraph 140 of SFAS No. 109 *Accounting for Income Taxes* ("SFAS No. 109") we recognized a federal tax benefit of \$4.2 million on US losses for the thirty-nine weeks ended February 25, 2007. In addition, we recognized a tax benefit of \$1.8 million related to an adjustment for tax contingencies. The remaining tax expense recognized for the thirty-nine weeks ended February 25, 2007 relates to income and other tax expenses of our Australian subsidiary, foreign withholding tax, and certain state and local tax expenses in the US.

### Thirteen weeks ended February 25, 2007 compared to thirteen weeks ended February 26, 2006

*Net Sales.* Net sales for the thirteen weeks ended February 25, 2007 decreased \$153.9 million, or 6.9%, as compared to the thirteen weeks ended February 26, 2006, primarily reflecting an 18.1% decrease in beef volume caused, at least in part, by the impact of the December ICE event, offset by a 2.9% increase in beef prices, a 4.1% decrease in pork volumes caused, at least in part, by the impact of the December ICE event more than offset by a 7.3% increase in pork prices coupled with an 11.5% increase in volume for Swift Australia coupled with a 2.2% increase in sales prices. The US dollar to Australian dollar exchange rate increase of approximately 5.3% favorably impacted net sales.

*Cost of Goods Sold.* Cost of goods sold decreased \$171.7 million, or 7.6%, for the thirteen weeks ended February 25, 2007 as compared to the thirteen weeks ended February 26, 2006 primarily due to lower volumes in Swift Beef and Swift Pork as noted above,

partially offset by higher volumes in Swift Australia coupled with 0.3% higher overall raw material prices. Cost of goods sold in the current year was negatively impacted by higher hourly labor costs, packaging, and supplies, as a result of the operational recovery associated with the December ICE event. Additionally, for the thirteen weeks ended February 25, 2007 the realized and unrealized net gains related to our forward futures contracts for live cattle and hog purchases were \$4.4 million as compared to losses of \$3.1 million for the thirteen weeks ended February 26, 2006. The US dollar to Australian dollar exchange rate increase of approximately 5.3% negatively impacted cost of goods sold in the current thirteen weeks as compared to the same thirteen week period of the prior fiscal year.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were 0.3% for the thirteen weeks ended February 25, 2007 as compared to (0.5%) for the thirteen weeks ended February 26, 2006. Gross margin percentage increases in Swift Beef and Swift Australia were partially offset by declines in Swift Pork. Swift Beef gross margin increases were attributable to higher selling prices which more than offset the increase in cost of goods sold while Swift Pork gross margin percentage declines were attributable to higher sales prices more than offset by higher raw material costs. Swift Australia gross margin percentage increases were attributable to higher sales prices coupled with lower raw material costs which more than offset higher other cost of goods sold.

*Selling, General, and Administrative.* Selling, general, and administrative expenses were \$34.7 million for the thirteen weeks ended February 25, 2007 as compared to \$38.4 million for the thirteen weeks ended February 26, 2006. These expenses decreased by \$3.7 million, or 9.6%, primarily related to reductions in overall professional fees and consulting costs coupled with reductions in employee related costs.

*Interest Expense, Net.* Interest expense for the thirteen weeks ended February 25, 2007 was \$22.3 million as compared to \$22.3 million for the thirteen weeks ended February 26, 2006.

*Income Taxes.* For the thirteen weeks ended February 25, 2007, our effective tax rate was approximately 2.7%. We calculate our interim income tax provision in accordance with FIN 18. In accordance with paragraph 22a of FIN 18 and paragraph 140 of SFAS No. 109 we recognized a \$3.5 million tax benefit on US losses for the thirteen weeks ended February 25, 2007. The remaining tax expense recognized for the thirteen weeks ended February 25, 2007 relates to income and other tax expenses of our Australian subsidiary, foreign withholding tax, and certain state and local tax expenses in the US.

## Segment Results

The following table presents segment results for the thirty-nine weeks ended February 26, 2006 and February 25, 2007 (in thousands):

	Thirty-Nine Weeks Ended		Sales Change	Volume Change	Average Sales Price Change
	February 26, 2006	February 25, 2007			
<b>Net sales</b>					
Swift Beef	\$4,129,477	\$4,158,197	\$ 28,720	(2.5)%	3.3%
Swift Pork	1,560,605	1,601,825	41,220	(0.6)%	3.2%
Swift Australia	1,299,931	1,419,270	119,339	8.1%	1.0%
Corporate and Other	(32,913)	(31,433)	1,480	N/A	N/A
<b>Total</b>	<u>\$6,957,100</u>	<u>\$7,147,859</u>	<u>\$190,759</u>	(0.5)%	2.1%
<b>Depreciation and amortization</b>					
Swift Beef	\$ 33,417	\$ 29,271			
Swift Pork	14,719	13,368			
Swift Australia	12,213	13,416			
<b>Total</b>	<u>\$ 60,349</u>	<u>\$ 56,055</u>			
<b>EBITDA</b>					
Swift Beef	\$ (78,186)	\$ (10,585)			
Swift Pork	58,172	45,232			
Swift Australia	21,370	42,279			
<b>Total</b>	<u>1,356</u>	<u>76,926</u>			
Depreciation and amortization	(60,349)	(56,055)			
Interest expense, net	(63,794)	(67,896)			
<b>Total loss before income taxes</b>	<u>\$ (122,787)</u>	<u>\$ (47,025)</u>			

### Thirty-nine weeks ended February 25, 2007 compared to thirty-nine weeks ended February 26, 2006

#### Swift Beef

*Net Sales.* Net sales of Swift Beef were \$4,158.2 million for the thirty-nine weeks ended February 25, 2007 as compared to \$4,129.5 million for the thirty-nine weeks ended February 26, 2006. The sales increase of \$28.7 million, or 0.7%, reflects 3.3% higher selling prices on 2.5% lower volumes due in part to the impact of the December ICE event.

*Depreciation and Amortization.* Depreciation and amortization of Swift Beef was \$29.3 million for the thirty-nine weeks ended February 25, 2007 as compared to \$33.4 million for the thirty-nine weeks ended February 26, 2006. The decrease of \$4.1 million, or 12.4%, was related to the disposition, in May 2006, of the Omaha and Nampa facilities (see Note 6 "Business Segments," of the consolidated financial statements contained in Part I. Item 1. of this Form 10-Q).

*EBITDA.* EBITDA of Swift Beef was \$(10.6) million for the thirty-nine weeks ended February 25, 2007 as compared to \$(78.2) million for the thirty-nine weeks ended February 26, 2006. The increase in EBITDA of \$67.6 million reflected a 3.3% increase in sales prices more than offsetting the 1.6% increase in raw material prices. EBITDA in the current year was also impacted by increases in freight, packaging, and hourly labor costs due to the impact of the December ICE event which were offset by reductions in salary labor, utility, insurance and workers compensation expenses. Additionally, EBITDA was impacted favorably by the disposition of the Omaha and Nampa facilities, in May 2006 as the facilities had incurred EBITDA losses of \$9.0 million through the thirty-nine weeks ended February 26, 2006 (see Note 6 "Business Segments," of the consolidated financial statements contained in Part I. of this Form 10-Q). Selling, general, and administrative costs were lower year over year principally driven by professional fees and a reduction in employee related costs.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were 0.2% for the thirty-nine weeks ended February 25, 2007 as compared to (1.2)% for the thirty-nine weeks ended February 26, 2006. The improved gross margins

reflect the above mentioned improvement in sales price as a result of the continued focus on customer facing initiatives, more than offsetting the higher raw material prices.

### ***Swift Pork***

*Net Sales.* Net sales of Swift Pork were \$1,601.8 million for the thirty-nine weeks ended February 25, 2007 as compared to \$1,560.6 million for the thirty-nine weeks ended February 26, 2006. The increase of \$41.2 million, or 2.6%, reflects 3.2% higher selling prices on 0.6% lower volumes due in part to the impact of the December ICE event.

*Depreciation and Amortization.* Depreciation and amortization of Swift Pork was \$13.4 million for the thirty-nine weeks ended February 25, 2007 as compared to \$14.7 million for the thirty-nine weeks ended February 26, 2006. The decrease of \$1.3 million, or 9.2%, resulted primarily from the depreciation recorded on assets placed in service, more than offset by the impact of assets fully depreciated during the period.

*EBITDA.* EBITDA of Swift Pork was \$45.2 million for the thirty-nine weeks ended February 25, 2007 as compared to \$58.2 million for the thirty-nine weeks ended February 26, 2006. The decrease of \$13.0 million, or 22.2%, resulted from a 0.6% decrease in volumes due to the impact of the December ICE event coupled with increases in raw material prices, transportation, hourly wages, and packaging costs and certain one time professional and consulting costs related to strategic initiatives which were incurred in the current year.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were 4.2% for the thirty-nine weeks ended February 25, 2007 and 5.0% for the thirty-nine weeks ended February 26, 2006. The decrease in gross margin percentage reflected an increase in sales price more than offset by increases in raw material and plant operating costs.

### ***Swift Australia***

*Net Sales.* Net sales of Swift Australia were \$1,419.3 million for the thirty-nine weeks ended February 25, 2007 as compared to \$1,299.9 million for the thirty-nine weeks ended February 26, 2006. The increase in net sales of \$119.3 million, or 9.2%, reflects a 1.0% increase on sales price coupled with a 8.1% increase in volume. Sales prices were favorably impacted by a 1.6% increase in the US dollar to Australian dollar exchange rate between the two periods. The increase in net sales was primarily driven by the significant increase in volume processed in both the grain and grass-fed businesses due to improved livestock availability at favorable prices.

*Depreciation and Amortization.* Depreciation and amortization of Swift Australia was \$13.4 million for the thirty-nine weeks ended February 25, 2007 as compared to \$12.2 million for the thirty-nine weeks ended February 26, 2006. The increase of \$1.2 million resulted from additions to property, plant, and equipment.

*EBITDA.* EBITDA of Swift Australia was \$42.3 million for the thirty-nine weeks ended February 25, 2007 as compared to \$21.4 million for the thirty-nine weeks ended February 26, 2006. The increase of \$20.9 million, or 97.8%, was the result of improved gross margins principally in the grass-fed business due to decreases in livestock costs coupled with higher volumes and increased sales prices partially offset by higher hourly labor, packaging, and certain one-time professional fees and consulting costs related to ongoing strategic initiatives which were incurred in the current year. In addition, a significant competitor closed a plant which was competing with Swift Australia for livestock. The closure increased livestock availability for Swift Australia.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) increased to 3.6% in the thirty-nine weeks ended February 25, 2007 from 2.1% for the thirty-nine weeks ended February 26, 2006 due to decreases in livestock costs primarily in the grass-fed business and higher sales prices.

The following table presents segment results for the thirteen weeks ended February 26, 2006 and February 25, 2007 (in thousands):

	<u>Thirteen Weeks Ended</u>		<u>Sales Change</u>	<u>Volume Change</u>	<u>Average Sales Price Change</u>
	<u>February 26, 2006</u>	<u>February 25, 2007</u>			
<b>Net sales</b>					
Swift Beef	\$1,383,301	\$1,164,779	\$(218,522)	(18.1)%	2.9%
Swift Pork	496,639	511,045	14,406	(4.1)%	7.3%
Swift Australia	373,565	425,692	52,127	11.5%	2.2%
Corporate and Other	(9,253)	(11,149)	(1,896)	N/A	N/A
<b>Total</b>	<u>\$2,244,252</u>	<u>\$2,090,367</u>	<u>\$(153,885)</u>	(7.0)%	2.7%
<b>Depreciation and amortization</b>					
Swift Beef	\$ 11,169	\$ 9,586			
Swift Pork	4,899	4,392			
Swift Australia	4,082	4,685			
<b>Total</b>	<u>\$ 20,150</u>	<u>\$ 18,663</u>			
<b>EBITDA</b>					
Swift Beef	\$ (52,554)	\$ (29,032)			
Swift Pork	16,354	7,605			
Swift Australia	6,418	12,421			
<b>Total</b>	<u>(29,782)</u>	<u>(9,006)</u>			
Depreciation and amortization	(20,150)	(18,663)			
Interest expense, net	(22,319)	(22,265)			
<b>Total loss before income taxes</b>	<u>\$ (72,251)</u>	<u>\$ (49,934)</u>			

#### Thirteen weeks ended February 25, 2007 compared to thirteen weeks ended February 26, 2006

##### *Swift Beef*

*Net Sales.* Net sales of Swift Beef were \$1,164.8 million for the thirteen weeks ended February 25, 2007 as compared to \$1,383.3 million for the thirteen weeks ended February 26, 2006. The sales decrease of \$218.5 million, or 15.8%, reflects 2.9% higher selling prices on 18.1% lower volumes due in part to the impact of the December ICE event.

*Depreciation and Amortization.* Depreciation and amortization of Swift Beef was \$9.6 million for the thirteen weeks ended February 25, 2007 as compared to \$11.2 million for the thirteen weeks ended February 26, 2006. The decrease of \$1.6 million, or 14.2%, was related to the disposition, in May 2006, of the Omaha and Nampa facilities (see Note 6 "Business Segments," of the consolidated financial statements contained in Part I. Item 1. of this Form 10-Q).

*EBITDA.* EBITDA of Swift Beef was (\$29.0) million for the thirteen weeks ended February 25, 2007 as compared to (\$52.6) million for the thirteen weeks ended February 26, 2006. The increase in EBITDA of \$23.5 million, or 44.8% was a result of the 2.9% increase in selling prices coupled with a nominal decrease in raw material costs. EBITDA in the current year was also impacted by higher hourly labor costs more than offset by reductions in freight costs, packaging and utility costs, a direct result of the reduced volumes associated with the operational recovery related to the December ICE event coupled with reductions in selling, general, and administrative expenses.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were (2.0)% for the thirteen weeks ended February 25, 2007 as compared to (3.1)% for the thirteen weeks ended February 26, 2006. The improved gross margins reflect higher sales prices coupled with nominally lower raw material prices.

## ***Swift Pork***

*Net Sales.* Net sales of Swift Pork were \$511.0 million for the thirteen weeks ended February 25, 2007 as compared to \$496.6 million for the thirteen weeks ended February 26, 2006. The increase of \$14.4 million, or 2.9%, reflects 7.3% higher selling prices on 4.1% lower volumes due in part to the impact of the December ICE event.

*Depreciation and Amortization.* Depreciation and amortization of Swift Pork was \$4.4 million for the thirteen weeks ended February 25, 2007 as compared to \$4.9 million for the thirteen weeks ended February 26, 2006. The decrease of \$0.5 million, or 10.3%, resulted primarily from the depreciation recorded on assets placed in service, more than offset by the impact of assets fully depreciated during the period.

*EBITDA.* EBITDA of Swift Pork was \$7.6 million for the thirteen weeks ended February 25, 2007 as compared to \$16.4 million for the thirteen weeks ended February 26, 2006. The decrease of \$8.8 million, or 53.5%, resulted from a 4.1% decrease in volume coupled with a 7.3% increase in sales prices more than offset by an 11.0% increase in livestock prices. EBITDA in the current year was also impacted by higher hourly labor costs directly attributable to the impact of the December ICE event as well as higher repair and maintenance costs partially offset by reductions in selling, general and administrative expenses.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) were 2.7% for the thirteen weeks ended February 25, 2007 and 4.6% for the thirteen weeks ended February 26, 2006. The decrease in gross margin percentage reflected an increase in net sales prices more than offset by the increase in raw material prices.

## ***Swift Australia***

*Net Sales.* Net sales of Swift Australia were \$425.7 million for the thirteen weeks ended February 25, 2007 as compared to \$373.6 million for the thirteen weeks ended February 26, 2006. The increase in net sales of \$52.1 million, or 14.0%, reflects a 2.2% increase in sales prices on an 11.5% increase in volume. Sales prices were positively impacted by a 5.3% increase in the US dollar to Australian dollar exchange rate between the two periods. The increase in net sales was mainly the result of volume increases in both the grass-fed and grain-fed business due to increased cattle availability and customer demand, respectively.

*Depreciation and Amortization.* Depreciation and amortization of Swift Australia was \$4.7 million for the thirteen weeks ended February 25, 2007 as compared to \$4.1 million for the thirteen weeks ended February 26, 2006. The increase of \$0.6 million resulted from additions to property, plant, and equipment coupled with the effect of foreign exchange rate differences. The US dollar to Australian dollar exchange rate increased an average of 5.3% between the two periods.

*EBITDA.* EBITDA of Swift Australia was \$12.4 million for the thirteen weeks ended February 25, 2007 as compared to \$6.4 million for the thirteen weeks ended February 26, 2006. The increase of \$6.0 million, or 93.5%, was a result of increased gross margins principally in the grass-fed business due to increases in livestock availability at favorable prices coupled with higher volumes and higher sales prices partially offset by higher hourly labor and employee related expenses, coupled with increases in packaging costs and contract services partially offset by reduced freight expenses. In addition, a significant competitor closed a plant which was competing with Swift Australia for livestock. The closure increased livestock availability for Swift Australia.

*Gross Margin Percentages.* Gross margin percentages (gross profit as a percent of net sales) increased to 3.5% in the thirteen weeks ended February 25, 2007 from 2.2% for the thirteen weeks ended February 26, 2006 due to increases in net sales prices coupled with decreases in livestock costs primarily in the grass-fed business. Sales prices were positively impacted by a 5.3% increase in the US dollar to Australian dollar exchange rate between the two periods.

## **Liquidity and Capital Resources**

### ***Internal Sources of Liquidity***

Our ongoing operations require the availability of funds to service debt, fund working capital, invest in our business, and pay our liabilities. We currently finance and expect to continue to finance these activities through cash flow from operations and from amounts available under our revolving credit facility. As of February 25, 2007, we had working capital of \$453.9 million compared to \$490.3 million at May 28, 2006. Decreased volumes as a result of the impact of the December ICE event resulted in lower receivables and inventory, somewhat offset by reductions in trade payables and other accrued expenses, which resulted in the net decrease in working capital.

We believe that cash on hand, cash flows from operations, and availability under our revolving credit facility will be sufficient to meet ongoing operating requirements, make scheduled principal and interest payments on debt, and fund capital expenditures. At February 25, 2007, we had capital projects in progress that will require approximately \$24.2 million to complete. Capital spending for fiscal 2007 is expected to approximate \$51.0 million. These expenditures are primarily for major renewals and improvements and the development of new processing capabilities.

*Operating activities.* Net cash provided by operating activities increased \$76.8 million for the thirty-nine weeks ended February 25, 2007 as compared to the thirty-nine weeks ended February 26, 2006. The increase is attributable to improved margins in the current year which are the result of an overall increase in prices and relatively flat raw material costs coupled with a reduction in selling, general, and administrative expenses.

On December 12, 2006, as previously reported on our Form 8-K filed with the SEC on December 13, 2006, agents from the US Department of Homeland Security's Immigration and Customs Enforcement ("ICE") division and other law enforcement agencies conducted on-site employee interviews at all of our domestic production facilities except Louisville, KY and Santa Fe Springs, CA in connection with an investigation of the immigration status of an unspecified number of our workers. Approximately 1,300 individuals were detained by ICE and removed from our domestic labor force. No civil or criminal charges have been filed by the government against us or any of our current or former management employees. On December 12, 2006, after a six to seven hour suspension of operations due to the employee interview process, we resumed production at all facilities but at reduced output levels. Production throughput for the pork operations has returned to pre-ICE event levels and production throughput for substantially all of the beef operations is expected to return to pre-ICE event levels by fiscal year end. We continue to believe that our preliminary estimate of the one-time impact on our full year ended May 27, 2007 of approximately \$20 million resulting primarily from lost operating efficiency as new employees are retrained, plus up to an additional \$10 million expected for employee retention and hiring incentives required to restaff the facilities with production employees is reasonable. We do not believe there will be a continuing effect on our business, financial condition, results of operations, and cash flows beyond the current fiscal year.

In January 2007, we implemented an overhead cost reduction program which resulted in the elimination of 70 filled and unfilled corporate positions. This program is expected to result in approximately \$10 million to \$15 million of annualized savings by the end of fiscal year 2008.

On March 23, 2007, the State of Nebraska environmental regulatory agency notified us that it has determined that groundwater remediation is necessary at our former Grand Island Platte River By-Products site. The State has ranked this site as Remedial Action Class I, based on the neighboring home using a well in the area of contamination and is requiring us, as the property owner, to submit a remedial action plan by June 29, 2007. The estimated cost of remediation is between \$70 thousand and \$1.1 million. It is unknown if the groundwater contamination is attributable to National By-Products, LLC (the company to whom we leased the land) or ConAgra Foods when it was operating the facility. Darling International, Inc. (who acquired National By-Products, LLC) and/or ConAgra Foods may be liable for a portion of the preparation and implementation of any remedial action plan for the site.

*Investing activities.* Cash used in investing activities totaled \$22.8 million for the thirty-nine weeks ended February 25, 2007 as compared to \$34.3 million for the thirty-nine weeks ended February 26, 2006. The decrease in cash used is the result of lower capital expenditures planned overall coupled with the timing of expenditures in the current year as compared to the prior year and increased cash received from the sale of non-core assets.

*Financing activities.* For the thirty-nine weeks ended February 25, 2007, cash used in financing activities was \$48.4 million as compared to cash provided by financing activities of \$15.6 million for the thirty-nine weeks ended February 26, 2006. Cash used increased due to a reduction in the outstanding revolver balance based on increased operating cash flows resulting from improved margins in the current year as compared to borrowings from the revolver in the prior year. This was partially offset by a larger dividend payment in the prior year than in the current year (see Note 4, "Related Party Transactions," of the consolidated financial statements contained in Part I. Item 1. of this Quarterly Report on Form 10-Q).

### ***External Sources of Liquidity***

Our primary financing objective is to maintain a conservative balance sheet that provides the flexibility to pursue our business strategy. To finance our working capital needs, we utilize cash flow from operations and borrow from our existing revolving credit facility in addition to a combination of equity and long-term debt to finance non-current assets.

We have in place a revolving credit facility (expiring in May 2010) of \$550.0 million of which \$277.2 million was available for borrowing as of February 25, 2007 with major domestic and international banks.

At February 25, 2007, we had \$805.8 million of total debt outstanding as compared to \$826.8 million as of May 28, 2006.

Our current revolving credit facility is secured by substantially all of our current assets, including cash, inventory, accounts receivable, and all of our property, plant, and equipment. As a result, our future liquidity is dependent on maintaining adequate cash flows from operations as well as maintaining the credit quality of our underlying accounts receivable balances. Although not anticipated by our management, deterioration of the credit quality of accounts receivable could reduce the availability under our revolving credit facility.

We believe that available borrowings under our revolving credit facility, available cash, and internally generated funds will be sufficient to support our working capital, capital expenditures and debt service requirements for the foreseeable future. Our ability to generate sufficient cash, however, is subject to certain general economic, financial, industry, legislative, regulatory, and other factors beyond our control.

We have hog purchase contracts which require the purchase of a minimum of approximately 40.0 million hogs through 2015. Such contracts vary in nature and stipulate minimum and maximum price commitments, based in part on market prices and in certain circumstances also include price adjustments based on corn prices. As part of the Transaction, ConAgra Foods has guaranteed the performance under certain hog purchase contracts which require us to purchase a minimum of approximately 1.2 million hogs annually through 2014. These contracts stipulate minimum price commitments, based in part on market prices, and in certain circumstances, also include price adjustments based on certain inputs.

### ***Bank Covenant Compliance***

Our senior credit facility contains customary representations and warranties and a financial covenant that requires a minimum ratio of consolidated EBITDA to fixed charges of 1.15 to 1.00, which is only tested if borrowing availability under the agreement is less than \$75.0 million. The agreement also contains negative covenants that limit the ability of Swift Operating and its subsidiaries to, among other things:

- incur additional indebtedness;
- create liens on property, revenue, or assets;
- make certain loans or investments;
- sell or dispose of assets;
- pay certain dividends and other restricted payments;
- prepay or cancel certain indebtedness;
- dissolve, consolidate, merge, or acquire the business or assets of other entities;
- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
- enter into new lines of business;
- enter into certain transactions with affiliates and certain permitted joint ventures;
- agree to restrictions on the ability of the subsidiaries to make dividends;
- agree to enter into negative pledges in favor of any other creditor; and
- enter into certain sale/leaseback transactions and operating leases.

The restrictions on the ability of Swift Operating and its subsidiaries to enter into capital lease obligations and sale and leaseback transactions, to make loans or investments, and to pay dividends and other restricted payments applies only when borrowing availability under the agreement is less than \$75.0 million.

The agreement also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the agreement, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien, change of control and certain sales of the Australian borrowers, and certain events related to bankruptcy and insolvency or environmental matters. If an event of default occurs, the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees, and

exercise remedies under the collateral documents relating to the agreement. As of February 25, 2007, we were in compliance with all terms, covenants, and agreements.

### ***Recently Issued Accounting Pronouncements***

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* (“SFAS No. 155”). This statement simplifies the accounting for certain hybrid financial instruments by permitting fair value accounting for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This pronouncement will be effective for us for fiscal year 2008. We do not expect the adoption of SFAS No. 155 to have a material impact on our financial position, results of operations, or cash flows.

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 is an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for the uncertainty in income taxes recognized in an enterprise’s financial statements. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination. If the tax position is deemed to be “more-likely-than-not” to be sustained, the tax position is then valued to determine the amount of benefit to be recognized in the financial statements. FIN 48 will be effective for us as of the beginning of fiscal year 2008. We are currently evaluating the impact, if any, of FIN 48 on our financial position, results of operations, and cash flows.

In September 2006, the SEC Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management released SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB No. 108”), that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for our fiscal year 2007. Our method is in line with the SEC’s view, therefore, the adoption of SAB No. 108 had no material impact on our financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. This pronouncement is effective for us for fiscal year 2009. We do not expect the adoption of SFAS No. 157 to have a material impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this Statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities using different measurement techniques. The fair value measurement provisions are elective and can be applied to individual financial instruments. SFAS No. 159 requires additional disclosures related to fair value measurements included in the entity’s financial statements. This Statement is effective for us as of the beginning of fiscal year 2009. We have not determined if we will elect to adopt the fair value measurement provisions of this Statement and what impact such adoption may have on our financial position, results of operations, or cash flows.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk Disclosures

The principal market risks affecting our business are exposures related to changes in commodity prices, foreign exchange rates, and interest rates. We attempt to mitigate these exposures by entering into various hedging transactions which are intended to decrease the volatility of earnings and cash flows associated with the changes in the applicable rates and prices.

The following table provides the fair value of our open derivative instruments (in thousands):

	<u>February 26, 2006</u>	<u>May 28, 2006</u>	<u>February 25, 2007</u>
Fair Value:			
Cattle and hogs	\$ (3,448)	\$ 1,782	\$ 5,092
Energy	—	—	98
Foreign currency	(139)	192	177
Interest rate swap	(3,319)	(2,638)	(1,964)
Total	<u>\$ (6,906)</u>	<u>\$ (664)</u>	<u>\$ 3,403</u>

Fair value for all derivatives was determined using quoted market prices.

#### Commodity Risk

We require various raw materials in our operations, including cattle, hogs, and energy such as natural gas, electricity, and diesel fuel, which are all considered commodities. We consider these raw materials generally available from a number of different sources and believe we can obtain them to meet our requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond our control such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. We generally hedge these commodities when and to the extent management determines conditions are appropriate. While this may tend to limit our ability to participate in gains from commodity price fluctuations, it also tends to reduce the risk of loss from changes in commodity prices.

We reflect commodity contract gains and losses as adjustments to the basis of underlying commodities purchased; gains or losses are recognized in the statements of earnings as a component of costs of goods sold, or as a component of other comprehensive income, upon change in fair value. Generally, we hedge a portion of our anticipated consumption of commodity inputs for periods of up to 12 months. We may enter into longer-term derivatives on particular commodities if deemed appropriate.

##### *Cattle and Hogs*

We purchase cattle and hogs for use in our processing businesses. The commodity price risk associated with these activities can be hedged by selling or buying the underlying commodity, or by using an appropriate commodity derivative instrument. We typically utilize exchange-traded futures and options as well as non-exchange-traded derivatives, in which case we monitor the amount of associated counterparty credit risk. We also enter into livestock forward purchase contracts in order to establish margins on sales we have agreed to make, but have not yet delivered upon. These contracts do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). Accordingly, changes in the market values of these contracts are recognized immediately as unrealized income or expense in the statements of earnings each period as fluctuations in the fair value of the contracts change with the change in the underlying value of the commodity. As we deliver on our sales and the related livestock forward contracts are closed, the unrealized income or expense is reversed and the actual transaction is realized. Therefore, on any given day, our reported operating results can be impacted from the non-cash gain or loss due to the accounting for these contracts.

As of February 25, 2007, we had firm contracts to purchase approximately 48% of our anticipated need of cattle and hogs, and we had derivative positions for approximately 1% of our anticipated need for cattle and hogs.

##### *Energy*

We incur energy costs in our facilities and incur higher operating expenses as a result of increases in energy costs. We may take positions in commodities used in our operations to partially offset adverse price movements in energy costs, such as natural gas and

electricity. When these positions are taken, we use exchange-traded derivative commodity instruments and non-exchange traded swaps and options. We monitor the amount of associated counterparty credit risk for non-exchange traded transactions.

Due to continued world oil market volatility during fiscal year 2006, our natural gas positions failed correlation under SFAS No. 133 and were marked to market during the thirty-nine weeks ended February 26, 2006 and recognized as a component of cost of goods sold in the statement of earnings for that period. We held no positions for natural gas during the thirty-nine weeks ended February 25, 2007. As of February 25, 2007, we had derivative positions for approximately 12% of our anticipated need for diesel fuel. As of February 25, 2007, we had contracts to purchase 100% of our anticipated annual need for natural gas and diesel fuel.

During the thirty-nine weeks ended February 25, 2007, we entered into a series of fixed price gas supply contracts for approximately 30% of our anticipated monthly needs at prices ranging from \$5.57 to \$9.93 per MMBTU in order to provide a degree of certainty with respect to our utility costs for the upcoming year.

### **Foreign Exchange Risk**

Transactions denominated in a currency other than an entity's functional currency are generally hedged to reduce market risk, primarily those of Swift Australia. In order to reduce exposures related to changes in foreign currency exchange rates, we use foreign currency forward exchange or option contracts for transactions denominated in a currency other than the applicable functional currency. This includes, but is not limited to, hedging foreign currency risk in sales of finished goods, future settlement of foreign denominated assets and liabilities, and firm commitments.

Gains and losses from foreign currency derivatives are recognized in the statements of earnings as a component of net sales or as a component of other comprehensive income upon change in fair value. For the thirteen and thirty-nine weeks ended February 26, 2006 and February 25, 2007, our foreign currency positions qualify for hedge accounting in accordance with SFAS No. 133. The ineffective components, generally related to changes in actual foreign currency sales compared to estimated foreign currency sales or due to cancellations of committed customer sales, were not significant. Gains and losses from these contracts are recognized in the period in which the hedged transaction affects earnings. We principally use non-exchange-traded contracts to affect this coverage. Typically, the maximum length of time over which we hedge exposure to foreign currency risk is three months or less.

### **Interest Rate Risk**

We are exposed to interest rate movements on our floating rate debt. This risk is managed by monitoring our percentage mix of fixed rate and variable rate debt and reviewing other business and financial risks. As of February 25, 2007, the fair value of our floating rate debt was \$259.4 million. A 100 basis point change in short-term rates would result in increased or decreased interest expense of approximately \$2.6 million on an annualized basis based on borrowings outstanding as of February 25, 2007.

In July 2003, we entered into a \$100.0 million notional amount interest rate swap related to our fixed rate senior debt in order to change the characteristics of a portion of our senior debt from fixed rate debt to variable rate debt. This action was taken in order to achieve a fixed/floating rate debt target deemed appropriate for our business. The maturity date of the interest rate swap is October 2007 and the floating rate is calculated based on the six-month USD LIBOR set on the last day of each calculation period plus a fixed spread. This interest rate swap does not qualify for hedge accounting and therefore changes in the market value of these contracts are recognized immediately as unrealized income or expense in the statements of earnings. An amount of \$0.1 million associated with the change in market value and cash interest expense for the thirty-nine weeks ended February 25, 2007 is recorded within interest expense in the statement of earnings. We cannot provide any assurance that we will not incur additional expenses related to changes in the fair value of the interest rate swap.

## Sensitivity Analysis

The following sensitivity analysis estimates our exposure to market risk of commodity prices, foreign exchange rates, and interest rates. The sensitivity analysis reflects the impact of a hypothetical 10% decrease in the fair value of applicable commodity prices, foreign exchange rates, and interest rates and excludes the underlying items that are being hedged (in thousands):

	<u>February 26, 2006</u>	<u>May 28, 2006</u>	<u>February 25, 2007</u>
<b>Fair Value</b>			
Cattle and hogs	\$ (3,448)	\$ 1,782	\$ 5,092
Energy	—	—	98
Foreign currency	(139)	192	177
Interest rate swap	<u>(3,319)</u>	<u>(2,638)</u>	<u>(1,964)</u>
<b>Total</b>	<u>\$ (6,906)</u>	<u>\$ (664)</u>	<u>\$ 3,403</u>
<b>Estimated Fair Value Volatility (-10%)</b>			
Cattle and hogs	\$ (14,946)	\$ (14,562)	\$ 8,286
Energy	—	—	6
Foreign currency	(17,946)	(18,183)	(16,519)
Interest rate swap	<u>(2,168)</u>	<u>(2,041)</u>	<u>(1,706)</u>
<b>Total</b>	<u>\$ (35,060)</u>	<u>\$ (34,786)</u>	<u>\$ (9,933)</u>

## ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e) under supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. During the most recently completed fiscal quarter covered by this report, there has been no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 5, "Legal Proceedings" to our consolidated financial statements included in Part I. Item 1. of this Form 10-Q.

### ITEM 1A. RISK FACTORS

Swift Holdings' Annual Report on Form 10-K for the fiscal year ended May 28, 2006 discloses certain risk factors related to our business. Below is an update to those risk factors in the Form 10-K.

***Our performance depends on continued access to a stable workforce and on favorable labor relations with our employees. Any deterioration of those relations or increase in labor costs could adversely affect our business.***

We have approximately 18,600 employees worldwide. Approximately 10,900 employees at our United States facilities are represented by labor organizations and collective bargaining agreements. Approximately 4,500 employees at our Australian facilities are parties to Awards of Enterprise or Certified Agreements between various labor organizations and Swift Australia. Any significant increase in labor costs, deterioration of employee relations, slowdowns, or work stoppages at any of our locations, whether due to union activities, employee turnover, changes in availability of qualified production workers or otherwise, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

On December 12, 2006, as previously reported in our Form 8-K filed with the Securities and Exchange Commission on December 13, 2006, agents from the US Department of Homeland Security's Immigration and Customs Enforcement ("ICE") division and other law enforcement agencies conducted on-site employee interviews at all of our domestic production facilities except Louisville, KY and Santa Fe Springs, CA in connection with an investigation of the immigration status of an unspecified number of our workers. Approximately 1,300 individuals were detained by ICE and removed from our domestic labor force. No civil or criminal charges have been filed by the government against us or any of our current or former management employees. On December 12, 2006, after a six to seven hour suspension of operations due to the employee interview process, we resumed production at all facilities but at reduced output levels. Production throughput for the pork operations has returned to pre-ICE event levels and production throughput for substantially all of the beef operations is expected to return to pre-ICE event levels by fiscal year end. We continue to believe that our preliminary estimate of the one-time impact on our full year ended May 27, 2007 of approximately \$20 million resulting primarily from lost operating efficiency as new employees are retrained, plus up to an additional \$10 million expected for employee retention and hiring incentives required to restaff the facilities with production employees is reasonable. We do not believe there will be a continuing effect on our business, financial condition, results of operations, and cash flows beyond the current fiscal year.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

- 3.1 Certificate of Incorporation of S&C Holdco 3, Inc. (1)
- 3.2 Bylaws of S&C Holdco 3, Inc. (2)
- 31.1 Certification of the Chief Executive Officer of S&C Holdco 3, Inc. pursuant to Rule 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer of S&C Holdco 3, Inc. pursuant to Rule 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Certification of the Chief Executive Officer of S&C Holdco 3, Inc. 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 of S&C Holdco 3, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Agreement, dated December 27, 2006, among Swift & Company, Australia Meat Holdings Pty. Limited, and John Keir

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\* Furnished herewith

- (1) Previously filed as Exhibit 3.1 to the Annual Report on Form 10-K for the year-ended May 25, 2003 of S&C Holdco 3, Inc. filed with the Securities and Exchange Commission on August 22, 2003. (File Number 333-100717)
- (2) Previously filed as Exhibit 3.2 to the Annual Report on Form 10-K for the year-ended May 25, 2003 of S&C Holdco 3, Inc. filed with the Securities and Exchange Commission on August 22, 2003. (File Number 333-100717)



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## CERTIFICATIONS

I, Sam B. Rovit, certify that:

1. I have reviewed this quarterly report on Form 10-Q of S&C Holdco 3, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: \_\_\_\_\_ /s/ SAM B. ROVIT  
Sam B. Rovit  
Chief Executive Officer,  
President and Director

Date: April 6, 2007

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**CERTIFICATIONS PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of S&C Holdco 3, Inc. (the Company) on Form 10-Q for the period ended February 25, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Raymond P. Silcock, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:           /s/ RAYMOND P. SILCOCK            
Raymond P. Silcock  
*Executive Vice President,  
Chief Financial Officer*

Date: April 6, 2007

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**Swift & Company**  
1770 Promontory Circle  
Greeley, CO 80634-9038  
TEL: 970-506-8000  
FAX: 970-506-8323

**Swift & Company**

December 18, 2006

John Keir  
Australia Meat Holdings Pty Limited  
175 Riverview Road  
Dinmore Qld 4303

Dear John

**Strictly Private & Confidential**

**Potential Transaction**

As you know, confidential preliminary discussions are taking place that may affect AMH's future. It is possible that those discussions could result in the sale of AMH (either by sale of its assets or shares) or in a merger with or AMH taking over another large stakeholder in the meat industry. At this stage we do not know if these discussions will result in a completed transaction, or the form that the transaction will take (if it occurs).

We believe your leadership through this process is important and propose to offer you the following arrangements.

**Transition Payment**

In return for your continued support, Swift & Company Inc. (*Swift*) and Australia Meat Holdings Pty Ltd (*AMH*) offer that a payment will be made to you on or about 1 January 2007 (the **Transition Payment**). The amount of the Transition Payment will be 100% of your Package Rate as at 1 January 2007 (from which applicable tax will be deducted). Payment of the Transition Payment is conditional on the following (the **Conditions**):

- (a) your agreement to work with Swift and AMH to do all that you can to assist with negotiation, planning and implementation of such transaction in respect of AMH as they nominate;
- (b) your agreement to utmost confidentiality in relation to this letter and all such proposals for a transaction (until such time and except to the extent that Swift allow otherwise; you are free to seek your own legal and financial advice in relation to this letter);
- (c) your agreement not to resign or give notice of resignation (except for ill-health) before the earlier of the completion of a transaction or 1 January 2009;
- (d) your agreement to assist with the smooth transition of the role of CEO of AMH as and when requested by Swift;
- (e) your agreement not to become an officer, employee, consultant or advisor of, or to otherwise provide services to, any other participant in the Australian meat industry for a

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period of two years after you leave the employ of AMH, without the prior consent of Swift (which would not be withheld if you can demonstrate to the reasonable satisfaction of Swift that the circumstances of any such engagement would not have any material effect on Swift or AMH or its successor).

If any of the Conditions (other than (c)) was not fulfilled by you, you would be required to repay the Cooperation Payment.

### **Completion Payment**

Subject to the terms below, if a transaction completes before 1 January 2009, Swift will make an additional payment to you, at or shortly after completion (the **Completion Payment**). The amount of the Completion Payment will be 200% of your annual Package Rate as at 1 January 2007 (from which applicable tax will be deducted).

The Completion Payment is conditional on the following:

- (a) up to the completion date:
  - (i) you do not resign or give notice of resignation; and
  - (ii) AMH does not terminate your employment for serious misconduct, including breach of what you undertake pursuant to this letter]; and
- (b) Swift, acting reasonably (and against the benchmark that your level of performance as an employee to date, as known to AMH, has been satisfactory) being satisfied that you have satisfactorily performed your duties (including the Conditions) up to the completion date.

### **Retention Payment**

If a completed transaction does not occur before the earlier of 1 January 2009 or the date you cease to be an employee of AMH by mutual agreement or because of dismissal (other than dismissal for serious misconduct (the **Retention Date**), Swift or AMH will make a further payment to you (the **Retention Payment**) on or about the Retention Date. The amount of the Retention Payment will be 200% of your annual Package Rate as at 1 January 2007 (from which applicable tax will be deducted). The Retention Payment is conditional on the following:

- (a) before the Retention Date:
  - (i) you do not resign or give notice of resignation (except by agreement); and
  - (ii) AMH does not terminate your employment for serious misconduct, (including breach of what you undertake pursuant to this letter); and
- (b) Swift and AMH, acting reasonably (and against the benchmark that your level of performance as an employee to date, as known to AMH, has been satisfactory), being satisfied that you have:
  - (i) satisfactorily performed your duties (including the Conditions) up to the Retention Date; and
  - (ii) satisfactorily co-operated with AMH and Swift (as you have undertaken to do) in relation to proposals, even though they do not complete.

If a Retention Payment is made, you would no longer qualify for a Completion Payment, even if completion of a transaction occurred subsequently;

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**Other entitlements and obligations**

The amounts offered in this letter do not affect or vary any other existing entitlement or obligation arising under the terms of your employment (including any entitlement you might have in respect of unlawful or unfair dismissal, redundancy, long service leave or accrued leave). If you have any questions about this letter, please do not hesitate to call Jack Shandley. If appropriate, and you so request and AMH/Swift do not thereby incur any additional tax or other detriment, all or part of a Payment may be made by payment of the amount (less applicable tax) to your nominated superannuation fund.

**If you agree to the offer in this letter, please sign and email it to Jack Shandley, who will then authorize payment of the Transition Payment.**

Yours sincerely

/s/ Sam Rovit

\_\_\_\_\_  
Sam Rovit  
President and Chief Executive officer  
Swift & Company

I, John Keir accept the above offer and terms.

/s/ John Keir

\_\_\_\_\_  
Signature

December 27, 2006

\_\_\_\_\_  
Date