SEABOARD CORP /DE/
Form 10-Q
November 01, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from ___________________________ to ___________________________

Commission File Number: 1-3390

Seaboard Corporation

(Exact name of registrant as specified in its charter)

Delaware	04-2260388
(State or other jurisdiction of incorporation) incorporation)	(I.R.S. Employer Identification No.) Identification No.)

9000 West 67th Street, Merriam, Kansas	66202
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (913) 676-8800

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer		Accelerated Filer
Non-Accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company
		Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 1,170,550 shares of common stock, $1.00 par value per share, outstanding on October 27, 2017.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
(Millions of dollars except share and per share amounts)	2017	2016	2017	2016
Net sales:				
Products (includes affiliate sales of $293, $261, $822 and $697)	$ 1,135	$ 1,070	$ 3,413	$ 3,230
Services (includes affiliate sales of $0, $0, $3 and $1)	238	237	732	716
Other	29	23	78	60
Total net sales	1,402	1,330	4,223	4,006
Cost of sales and operating expenses:				
Products	1,028	1,006	3,106	2,977
Services	206	198	641	619
Other	20	18	61	51
Total cost of sales and operating expenses	1,254	1,222	3,808	3,647
Gross income	148	108	415	359
Selling, general and administrative expenses	77	66	224	205
Operating income	71	42	191	154
Other income (expense):				
Interest expense	(9)	(7)	(19)	(23)
Interest income	2	7	9	11
Interest income from affiliates	6	6	18	18
Income (loss) from affiliates	(3)	21	(10)	54
Other investment income, net	54	29	119	42
Foreign currency gains, net	3	1	12	10
Miscellaneous, net	—	1	—	(1)
Total other income, net	53	58	129	111
Earnings before income taxes	124	100	320	265
Income tax expense	(43)	(25)	(96)	(55)
Net earnings	$ 81	$ 75	$ 224	$ 210
Less: Net income attributable to noncontrolling interests	—	—	—	(1)
Net earnings attributable to Seaboard	$ 81	$ 75	$ 224	$ 209

Earnings per common share	$ 69.28	$ 64.42	$ 191.63	$ 178.67
Other comprehensive income (loss), net of income tax benefit of $1, $1, $0 and $9:				
Foreign currency translation adjustment	(2)	(7)	(3)	(23)
Unrealized gain on investments	—	1	3	1
Unrecognized pension cost	1	—	3	2
Other comprehensive income (loss), net of tax	$ (1)	$ (6)	$ 3	$ (20)
Comprehensive income	80	69	227	190
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	(1)
Comprehensive income attributable to Seaboard	$ 80	$ 69	$ 227	$ 189
Average number of shares outstanding	1,170,550	1,170,550	1,170,550	1,170,550
Dividends declared per common share	$ 1.50	$ —	$ 4.50	$ —

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(Millions of dollars except share and per share amounts)	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 61	$ 77
Short-term investments	1,358	1,277
Receivables, net	622	627
Inventories	828	762
Other current assets	120	105
Total current assets	2,989	2,848
Net property, plant and equipment	1,064	1,006
Investments in and advances to affiliates	846	773
Notes receivable from affiliates, net	17	26
Other non-current assets	77	102
Total assets	$ 4,993	$ 4,755
Liabilities and Stockholders’ Equity		
Current liabilities:		
Notes payable to banks	$ 97	$ 121
Current maturities of long-term debt	50	17
Accounts payable	190	216
Deferred revenue	140	114
Other current liabilities	298	317
Total current liabilities	775	785
Long-term debt, less current maturities	490	499
Deferred income taxes	122	77
Other liabilities and deferred credits	210	219
Total non-current liabilities	822	795
Commitments and contingent liabilities		
Stockholders’ equity:		
Common stock of $1 par value. Authorized 1,250,000 shares; issued and outstanding 1,170,550 shares	1	1
Accumulated other comprehensive loss	(301)	(304)
Retained earnings	3,683	3,465
Total Seaboard stockholders’ equity	3,383	3,162
Noncontrolling interests	13	13
Total equity	3,396	3,175
Total liabilities and stockholders’ equity	$ 4,993	$ 4,755

See accompanying notes to condensed consolidated financial statements.

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SEABOARD CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
(Millions of dollars)	September 30, 2017	October 1, 2016
Cash flows from operating activities:		
Net earnings	$ 224	$ 210
Adjustments to reconcile net earnings to cash from operating activities:		
Depreciation and amortization	88	74
Deferred income taxes	44	34
Loss (income) from affiliates	10	(54)
Dividends received from affiliates	24	31
Other investment income, net	(119)	(42)
Other, net	(10)	13
Changes in assets and liabilities, net of acquisitions:		
Receivables, net of allowance	14	42
Inventories	(67)	(14)
Other current assets	(10)	7
Current liabilities, exclusive of debt	(5)	26
Other, net	5	(28)
Net cash from operating activities	198	299
Cash flows from investing activities:		
Purchase of short-term investments	(420)	(353)
Proceeds from the sale of short-term investments	428	461
Proceeds from the maturity of short-term investments	42	19
Capital expenditures	(118)	(128)
Proceeds from the sale of fixed assets	3	46
Acquisition of businesses	(54)	(214)
Investments in and advances to affiliates, net	(87)	(55)
Notes receivable issued to affiliates	(2)	(12)
Principal payments received on notes receivable from affiliates	3	12
Purchase of long-term investments	(9)	(19)
Other, net	(2)	8
Net cash from investing activities	(216)	(235)
Cash flows from financing activities:		
Notes payable to banks, net	(20)	(2)
Proceeds from long-term debt	38	2
Principal payments of long-term debt	(13)	(1)
Dividends paid	(6)	—
Net cash from financing activities	(1)	(1)
Effect of exchange rate changes on cash and cash equivalents	3	—
Net change in cash and cash equivalents	(16)	63
Cash and cash equivalents at beginning of year	77	50
Cash and cash equivalents at end of period	$ 61	$ 113

See accompanying notes to condensed consolidated financial statements.

SEABOARD CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Accounting Policies and Basis of Presentation

The condensed consolidated financial statements include the accounts of Seaboard Corporation and its domestic and foreign subsidiaries ("Seaboard"). All significant intercompany balances and transactions have been eliminated in consolidation. Seaboard's investments in non-consolidated affiliates are accounted for by the equity method. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Seaboard for the year ended December 31, 2016, as filed in its annual report on Form 10-K. Seaboard's first three quarterly periods include approximately 13 weekly periods ending on the Saturday closest to the end of March, June and September. Seaboard's year-end is December 31.

The accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year. As Seaboard conducts its commodity trading business with third parties, consolidated subsidiaries and non-consolidated affiliates on an interrelated basis, gross margin on non-consolidated affiliates cannot be clearly distinguished without making numerous assumptions primarily with respect to mark-to-market accounting for commodity derivatives.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with United States ("U.S.") generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to allowance for doubtful accounts, valuation of inventories, impairment of long-lived assets, potential write-down related to investments in and advances to affiliates and notes receivable from affiliates, income taxes and accrued pension liability. Actual results could differ from those estimates.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to develop a single, comprehensive revenue recognition model for all contracts with customers. This guidance requires an entity to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods and services. This guidance supersedes nearly all existing revenue recognition guidance under GAAP. Seaboard will adopt this guidance on January 1, 2018, for all consolidated subsidiaries using the cumulative effect transition method, where any cumulative effect of initially adopting the guidance is recognized at the date of adoption. Based on management's current assessment, the majority of Seaboard's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Seaboard believes the adoption of this guidance will not have a material impact on its financial position or net earnings, although it anticipates expansion of consolidated financial statement disclosures in order to comply with the guidance.

In January 2016, the FASB issued guidance that requires entities to measure equity investments, other than those accounted for using the equity method of accounting, at fair value and recognize any changes in fair value in net income if a readily determinable fair value exists. For investments without readily determinable fair values, the cost method of accounting is eliminated. An entity may elect to record these equity investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Seaboard will adopt this guidance on January 1, 2018, and believes the adoption of this guidance will not have a material impact on its financial position or net earnings.

In February 2016, the FASB issued guidance that a lessee should record a right-of-use ("ROU") asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The recognition, measurement, and presentation of expenses and cash flows arising from a financing lease have not significantly changed from the previous guidance. For operating leases, a lessee is required to: (1) recognize a ROU asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis and (3) classify all cash payments within operating activities in the statement of cash flows. Seaboard will adopt this guidance on January 1, 2019, for all consolidated subsidiaries. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Seaboard is in the preliminary stages of its assessment of the effect the guidance will have on its existing accounting policies and the consolidated financial statements, but expects there will be an increase in assets and liabilities on the consolidated balance sheets at adoption due to the recording of ROU assets and corresponding lease liabilities, which will likely be material. See Note 10 to the consolidated financial statements included in Seaboard's annual report for the year ended December 31, 2016, for information about Seaboard's lease obligations.

In March 2017, the FASB issued guidance that will require the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in inventory. The other components of net periodic benefit cost will be presented outside of operating income and will not be capitalizable. Seaboard will adopt this guidance on January 1, 2018, and believes the adoption of this guidance will not have a material impact on its financial position or net earnings.

Note 2 – Investments

The following is a summary of the amortized cost and estimated fair value of short-term investments classified as trading securities held at September 30, 2017 and December 31, 2016.

	September 30, 2017		December 31, 2016	
	Amortized	Fair	Amortized	Fair
(Millions of dollars)	Cost	Value	Cost	Value
Domestic equity securities	$ 609	$ 716	$ 444	$ 482
Foreign equity securities	265	310	198	199
Domestic debt securities held in mutual funds/ETFs/U.S. Treasuries	174	175	437	437
High yield securities	85	86	114	115
Money market funds held in trading accounts	36	36	13	13
Collateralized loan obligations	28	29	25	26
Other trading securities	4	6	5	5
Total trading short-term investments	$ 1,201	$ 1,358	$ 1,236	$ 1,277

Seaboard had $110 million of equity securities denominated in foreign currencies at September 30, 2017, with $47 million in euros, $22 million in Japanese yen, $19 million in British pounds, $6 million in Swiss francs and the remaining $16 million in various other currencies. At December 31, 2016, Seaboard had $91 million of equity securities denominated in foreign currencies, with $35 million in euros, $20 million in Japanese yen, $16 million in British pounds, $6 million in Swiss francs and the remaining $14 million in various other currencies. Also, money market funds denominated in various foreign currencies were less than $1 million and $1 million at September 30, 2017 and December 31, 2016, respectively.

Unrealized gains related to trading securities still held at the end of the respective reporting period were $54 million and $114 million for the three and nine months ended September 30, 2017, respectively, and $27 million and $41 million for the three and nine months ended October 1, 2016, respectively.

In addition to its short-term investments, Seaboard also has trading securities related to Seaboard's deferred compensation plans classified in other current assets in the condensed consolidated balance sheets. See Note 5 to the condensed consolidated financial statements for information on the types of trading securities held related to the deferred compensation plans.

Note 3 – Inventories

The following is a summary of inventories at September 30, 2017 and December 31, 2016:

(Millions of dollars)	September 30, 2017	December 31, 2016
At lower of LIFO cost or market:		
Live hogs and materials	$ 296	$ 273
Fresh pork and materials	32	34
	328	307
LIFO adjustment	(23)	(21)
Total inventories at lower of LIFO cost or market	305	286
At lower of FIFO cost or market:		
Grains, oilseeds and other commodities	330	279
Sugar produced and in process	33	30
Other	72	62
Total inventories at lower of FIFO cost or market	435	371
Grain, flour and feed at lower of weighted average cost or market	88	105
Total inventories	$ 828	$ 762

Note 4 – Income Taxes

Seaboard's tax returns are regularly audited by federal, state and foreign tax authorities, which may result in material adjustments. Seaboard's 2013 through 2015 U.S. income tax returns are currently under Internal Revenue Service examination. There have not been any material changes in unrecognized income tax benefits since December 31, 2016. Interest and penalties related to unrecognized tax benefits were not material for the three and nine months ended September 30, 2017.

Note 5 – Derivatives and Fair Value of Financial Instruments

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

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

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

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

The following table shows assets and liabilities measured at fair value on a recurring basis as of September 30, 2017, and also the level within the fair value hierarchy used to measure each category of assets and liabilities. Seaboard determines if there are any transfers between levels at the end of a reporting period. There were no transfers between levels that occurred in the first nine months of 2017. The trading securities classified as other current assets below are assets held for Seaboard's deferred compensation plans.

(Millions of dollars)	Balance September 30, 2017	Level 1	Level 2	Level 3
Assets:				
Trading securities – short-term investments:				
Domestic equity securities	$ 716	$ 716	$ —	$ —
Foreign equity securities	310	310	—	—
Domestic debt securities held in mutual funds/ETFs/U.S. Treasuries	175	173	2	—
High yield securities	86	20	66	—
Money market funds held in trading accounts	36	36	—	—
Collateralized loan obligations	29	—	29	—
Other trading securities	6	5	1	—
Trading securities – other current assets:				
Domestic equity securities	38	38	—	—
Foreign equity securities	5	5	—	—
Fixed income mutual funds	4	4	—	—
Other	2	2	—	—
Derivatives:				
Commodities (1)	3	3	—	—
Foreign currencies	4	—	4	—
Total Assets	$ 1,414	$ 1,312	$ 102	$ —
Liabilities:				
Derivatives:				
Commodities (1)	$ 2	$ 2	$ —	$ —
Interest rate swaps	3	—	3	—
Total Liabilities	$ 5	$ 2	$ 3	$ —

(1) Seaboard's commodity derivative assets and liabilities are presented in the condensed consolidated balance sheets on a net basis, including netting the derivatives with the related margin accounts. As of September 30, 2017, the commodity derivatives had a margin account balance of $16 million resulting in a net other current asset in the condensed consolidated balance sheet of $17 million.

The following table shows assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, and also the level within the fair value hierarchy used to measure each category of assets and liabilities.

(Millions of dollars)	Balance December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Trading securities – short-term investments:				
Domestic equity securities	$ 482	$ 482	$ —	$ —
Domestic debt securities held in mutual funds/ETFs/U.S. Treasuries	437	437	—	—
Foreign equity securities	199	199	—	—
High yield securities	115	15	100	—
Collateralized loan obligations	26	—	26	—
Money market funds held in trading accounts	13	13	—	—
Other trading securities	5	5	—	—
Trading securities – other current assets:				
Domestic equity securities	30	30	—	—
Foreign equity securities	3	3	—	—
Fixed income mutual funds	3	3	—	—
Other	4	4	—	—
Derivatives:				
Commodities (1)	3	3	—	—
Foreign currencies	1	—	1	—
Total Assets	$ 1,321	$ 1,194	$ 127	$ —
Liabilities:				
Derivatives:				
Commodities (1)	$ 1	$ 1	$ —	$ —
Interest rate swaps	4	—	4	—
Foreign currencies	4	—	4	—
Total Liabilities	$ 9	$ 1	$ 8	$ —

(1) Seaboard’s commodity derivative assets and liabilities are presented in the condensed consolidated balance sheets on a net basis, including netting the derivatives with the related margin accounts. As of December 31, 2016, the commodity derivatives had a margin account balance of $10 million resulting in a net other current asset in the condensed consolidated balance sheet of $12 million.

Financial instruments consisting of cash and cash equivalents, net receivables, notes payable, and accounts payable are carried at cost, which approximates fair value as a result of the short-term nature of the instruments. The amortized cost and estimated fair values of short-term investments at September 30, 2017 and December 31, 2016 are presented in Note 2 to the condensed consolidated financial statements. The fair value of long-term debt is estimated by comparing interest rates for debt with similar terms and maturities. As Seaboard’s long-term debt is variable-rate, its carrying amount approximates fair value. If Seaboard’s long-term debt was measured at fair value in its condensed consolidated balance sheets, it would have been classified as level 2 in the fair value hierarchy.

While management believes its derivatives are primarily economic hedges of its firm purchase and sales contracts or anticipated sales contracts, Seaboard does not perform the extensive record-keeping required to account for these types of transactions as hedges for accounting purposes. As the derivatives discussed below are not accounted for as hedges, fluctuations in the related commodity prices, foreign currency exchange rates and interest rates could have a material impact on earnings in any given period. Seaboard also enters into speculative derivative transactions not directly related to its raw material requirements. The nature of Seaboard's market risk exposure has not changed materially since December 31, 2016.

Commodity Instruments

Seaboard uses various derivative futures and options to manage its risk of price fluctuations for raw materials and other inventories, finished product sales and firm sales commitments. At September 30, 2017, Seaboard had open net derivative contracts to purchase 34 million bushels of grain and 13 million pounds of hogs and open net derivative contracts to sell 55 million pounds of soybean oil and 4 million gallons of heating oil. At December 31, 2016, Seaboard had open net derivative contracts to purchase 22 million bushels of grain and 14 million pounds of hogs and open net derivative contracts to sell 35 million pounds of soybean oil and 4 million gallons of heating oil. Commodity derivatives are recorded at fair value with any changes in fair value being marked-to-market as a component of cost of sales in the condensed consolidated statements of comprehensive income.

Foreign Currency Exchange Agreements

Seaboard enters into foreign currency exchange agreements to manage the foreign currency exchange rate risk with respect to certain transactions denominated in foreign currencies. Foreign currency exchange agreements that are primarily related to an underlying commodity transaction are recorded at fair value with changes in value marked-to-market as a component of cost of sales in the condensed consolidated statements of comprehensive income. Foreign currency exchange agreements that are not related to an underlying commodity transaction are recorded at fair value with changes in value marked-to-market as a component of foreign currency gains (losses), net in the condensed consolidated statements of comprehensive income. At September 30, 2017 and December 31, 2016, Seaboard had trading foreign currency exchange agreements to cover a portion of its firm sales and purchase commitments and related trade receivables and payables with net notional amounts of $73 million and $81 million, respectively, primarily related to the South African rand and Canadian dollar.

Interest Rate Exchange Agreements

During 2010, Seaboard entered into three ten-year interest rate exchange agreements to mitigate the effects of fluctuations in interest rates on variable-rate debt. These agreements involve the exchange of fixed-rate and variable-rate interest payments over the life of the agreements without the exchange of the underlying notional amounts. Seaboard pays a fixed rate and receives a variable rate of interest on the notional amounts. At September 30, 2017 and December 31, 2016, Seaboard had three interest rate exchange agreements outstanding with a total notional value of $75 million. None of Seaboard’s outstanding interest rate exchange agreements qualify as hedges for accounting purposes. Accordingly, the changes in fair value of these agreements are recorded in miscellaneous, net in the condensed consolidated statements of comprehensive income.

Counterparty Credit Risk

From time to time Seaboard is subject to counterparty credit risk related to its foreign currency exchange agreements and interest rate swaps should the counterparties fail to perform according to the terms of the contracts. As of September 30, 2017, Seaboard had a maximum amount of loss due to credit risk of $4 million with six counterparties related to foreign currency exchange agreements and no counterparty credit risk related to the interest rate swaps. Seaboard does not hold any collateral related to these agreements.

The following table provides the amount of gain or (loss) recognized in income for each type of derivative and where it was recognized in the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2017 and October 1, 2016.

		Three Months Ended		Nine Months Ended	
		September 30,	October 1,	September 30,	October 1,
(Millions of dollars)		2017	2016	2017	2016
Commodities	Cost of sales	$ (6)	$ (14)	$ (5)	$ 17
Foreign currencies	Cost of sales	2	(12)	(3)	(25)
Foreign currencies	Foreign currency gains, net	(1)	—	(2)	—
Interest rate swaps	Miscellaneous, net	—	1	—	(3)

The following table provides the fair value of each type of derivative held as of September 30, 2017 and December 31, 2016 and where each derivative is included in the condensed consolidated balance sheets.

		Asset Derivatives			Liability Derivatives	
		September 30,	December 31,		September 30,	December 31,
(Millions of dollars)		2017	2016		2017	2016
Commodities(1)	Other current assets	$ 3	$ 3	Other current liabilities	$ 2	$ 1
Foreign currencies	Other current assets	4	1	Other current liabilities	—	4
Interest rate swaps	Other current assets	—	—	Other current liabilities	3	4

(1) Seaboard's commodity derivative assets and liabilities are presented in the condensed consolidated balance sheets on a net basis, including netting the derivatives with the related margin accounts. As of September 30, 2017 and December 31, 2016, the commodity derivatives had a margin account balance of $16 million and $10 million, respectively, resulting in a net other current asset in the condensed consolidated balance sheets of $17 million and $12 million, respectively.

Note 6 – Employee Benefits

Effective January 1, 2017, Seaboard merged the assets and liabilities of its two defined benefit pension plans for its domestic salaried and clerical employees. At this time, no contributions are expected to be made to the combined plan in 2017. Seaboard also sponsors non-qualified, unfunded supplemental executive plans, and has certain individual, non-qualified, unfunded supplemental retirement agreements for certain retired employees. Management has no plans to provide funding for these supplemental plans in advance of when the benefits are paid.

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

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
(Millions of dollars)	2017	2016	2017	2016
Components of net periodic benefit cost:				
Service cost	$ 2	$ 3	$ 6	$ 7
Interest cost	3	2	8	8
Expected return on plan assets	(2)	(2)	(7)	(6)
Amortization and other	1	1	4	3
Net periodic benefit cost	$ 4	$ 4	$ 11	$ 12

Note 7 – Notes Payable, Long-term Debt, Commitments and Contingencies

Notes Payable

Of the $97 million of notes payable outstanding at September 30, 2017, all were related to foreign subsidiaries, with $80 million denominated in South African rand, $15 million denominated in Argentine pesos and $2 million denominated in Zambian kwacha. The weighted average interest rate for outstanding notes payable was 11.56% and 14.88% at September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, Seaboard had uncommitted credit lines totaling $419 million, of which $369 million related to foreign subsidiaries. As of September 30, 2017, Seaboard's borrowing capacity under its uncommitted lines was reduced by $97 million drawn under the uncommitted lines and $3 million of letters of credit. The notes payable under the credit lines are unsecured and do not require compensating balances.

Also, Seaboard has a $100 million committed credit line secured by certain short-term investments, but there was no outstanding balance as of September 30, 2017. During the third quarter of 2017, Seaboard renewed this credit line for another year until September 28, 2018, with no other changes to the agreement.

Long-term Debt

The following is a summary of long-term debt:

(Millions of dollars)	September 30, 2017	December 31, 2016
Term Loan due 2022	$ 488	$ 497
Foreign subsidiary obligations due 2018 through 2023	53	20
Total long-term debt at face value	541	517
Current maturities of long-term debt and unamortized discount	(51)	(18)
Long-term debt, less current maturities and unamortized discount	$ 490	$ 499

During the third quarter of 2017, Seaboard's Sugar segment refinanced certain notes payable with a short-term loan denominated in Argentine pesos valued at approximately $32 million as of September 30, 2017. The short-term loan incurs a fixed rate of interest of 23% until its maturity on February 7, 2018.

The interest rate on the Term Loan due 2022 was 2.86% and 2.40% at September 30, 2017 and December 31, 2016, respectively. The weighted average interest rate on Seaboard's foreign subsidiary obligations was 21.18% and 22.39% at September 30, 2017 and December 31, 2016, respectively. Seaboard was in compliance with all restrictive debt covenants relating to these agreements as of September 30, 2017.

Contingencies

On September 18, 2014, and subsequently in 2015 and 2016, Seaboard received a number of grand jury subpoenas and informal requests for information from the Department of Justice, Asset Forfeiture and Money Laundering Section ("AFMLS"), seeking records related to specified foreign companies and individuals. The companies and individuals as to which the requested records relate were not affiliated with Seaboard, although Seaboard has also received subpoenas and requests for additional information relating to an affiliate of Seaboard. During 2017, Seaboard received grand jury subpoenas requesting documents and information related to money transfers and bank accounts in the Democratic Republic of Congo ("DRC") and other African countries and requests to interview certain Seaboard employees and to obtain testimony before a grand jury. Seaboard has retained outside counsel and is cooperating with the government’s investigation. It is impossible at this stage either to determine the probability of a favorable or unfavorable outcome or to estimate the amount of potential loss, if any, resulting from the government’s inquiry.

On September 19, 2012, the U.S. Immigration and Customs Enforcement (“ICE”) executed three search warrants authorizing the seizure of certain records from Seaboard’s offices in Merriam, Kansas and at the Seaboard Foods LLC (“Seaboard Foods”) employment office and the human resources department in Guymon, Oklahoma. The warrants generally called for the seizure of employment-related files, certain e-mails and other electronic records relating to Medicaid and Medicaid recipients, certain health care providers in the Guymon area, and Seaboard’s health plan and certain personnel issues. The U.S. Attorney’s Office for the Western District of Oklahoma (“USAO”), which has been leading the investigation, previously advised Seaboard that it intended to close its investigation and that no charges would be brought against Seaboard. However, discussions continue with the USAO, ICE and the Oklahoma Attorney General's office regarding the matter, including the possibility of a settlement. No proceedings have been filed or brought as of the date of this report. It is not possible at this time to determine whether a settlement will be reached or whether Seaboard will incur any material fines, penalties or liabilities in connection with this matter.

On February 16, 2016, Seaboard Foods received an information request from the U.S. Environmental Protection Agency ("EPA") seeking information under the Clean Air Act with regard to various ammonia releases at Seaboard Foods' pork processing plant in Guymon, Oklahoma. Seaboard Foods has been cooperating with the EPA with regard to the investigation. On July 21, 2017, a letter was received from the EPA alleging violations of regulations and indicating an intent to proceed administratively with respect to these violations. The letter included a draft Consent Agreement and Final Order ("Agreement") which proposed a civil penalty and the requirement that a "Supplemental Environmental Project" ("SEP") be undertaken. Seaboard believes that the matter will be resolved with the civil penalty and the cost of the SEP being less than $1 million.

Seaboard is subject to various administrative and judicial proceedings and other legal matters related to the normal conduct of its business. In the opinion of management, the ultimate resolution of these items is not expected to have a material adverse effect on the condensed consolidated financial statements of Seaboard.

Contingent Obligations

Certain of the non-consolidated affiliates and third-party contractors who perform services for Seaboard have bank debt supporting their underlying operations. From time to time, Seaboard will provide guarantees of that debt in order to further Seaboard's business objectives. Seaboard does not issue guarantees of third parties for compensation. As of September 30, 2017, guarantees outstanding to third parties were not material. Seaboard has not accrued a liability for any of the third-party or affiliate guarantees as management considers the likelihood of loss to be remote. See Notes Payable section above for discussion of letters of credit.

Note 8 – Stockholders' Equity and Accumulated Other Comprehensive Loss

Seaboard has a share repurchase program in place that was approved by its Board of Directors and is in effect through October 31, 2019. As of September 30, 2017, the authorized amount of repurchases under the share repurchase program remained at $100 million. Seaboard did not repurchase any shares of common stock for the nine months ended September 30, 2017. Under this share repurchase program, Seaboard is authorized to repurchase its common stock from time to time in open market or privately negotiated purchases, which may be above or below the traded market price. During the period that the share repurchase program remains in effect, from time to time, Seaboard may enter into a 10b5 1 plan authorizing a third party to make such purchases on behalf of Seaboard. All stock repurchased will be made in compliance with applicable legal requirements and funded by cash on hand. The timing of the repurchases and the number of shares repurchased at any given time will depend upon market conditions, compliance with Securities and Exchange Commission regulations, and other factors. The Board of Directors' stock repurchase authorization does not obligate Seaboard to acquire a specific amount of common stock, and the stock repurchase program may be suspended at any time at Seaboard's discretion.

The changes in the components of other comprehensive income (loss), net of related taxes, are as follows:

	Three Months Ended		Nine Months Ended	
(Millions of dollars)	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016

Foreign currency translation adjustment	$ (2)	$ (7)