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## Conference Call Transcript

TSN - Q1 2009 Tyson Foods Earnings Conference Call

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Jan. 26. 2009 / 8:00AM CT, TSN - Q1 2009 Tyson Foods Earnings Conference Call

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## PRESENTATION

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### Operator

Welcome and thank you for standing by. At this time all participants are in a listen-only mode. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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Now I would like to turn the call over to your host, Ms. Ruth Ann Wisener. Ma'am, you may begin.

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**Ruth Ann Wisener - Tyson Foods, Inc - VP, IR**

Good morning and thank you for joining us today for Tyson Foods's conference call for the first quarter of our 2009 fiscal year. I want to remind everyone that some of the things we talk about today will include forward-looking statements. Those statements are based on our view of the world as we know it today, which could change. I encourage you to look at today's press release for a discussion of the risks that can affect our business. Before we begin, I'd like to inform you that we will be using a new format for today's call. First, we will hear opening remarks from our interim President and CEO, Leland Tollett, followed by the financial report from CFO, Dennis Leatherby. Reporting on our Chicken and Prepared Foods Segments will be Donnie Smith, Senior Group Vice President of Poultry and Prepared Foods.

Reporting on our Beef and Pork Segments will be Jim Lochner, Senior Group Vice President of Tyson Fresh Meats and Margin Optimization. Also joining us today are Rick Greubel, Group Vice President and International President, and Jeff Webster, Group Vice President of our Renewable Products Group. Although Rick and Jeff aren't participating in the prepared remarks, they will be available to answer your questions in the Q&A portion of our call. To keep the call to one hour and to ensure everyone has an opportunity to ask a question, I ask you to limit yourself to one question and one clarifying follow-up. If you have another question, please get back in the queue. If we have any time remaining we will take additional questions in the order you queued up until we run out of time. I will now turn the call over to interim CEO, Leland Tollett.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Good morning. It is good to be back. It has been a few years since I have done one of these calls and I suppose we will know here pretty quick whether or not it is kind of like riding a bicycle, I don't think we will forget very much about it. We plan to give you some color around our first quarter results and what we are doing to manage our Company as we look forward. Most of our business is in good shape. The business, the Beef Segment performed solidly until market conditions in December left it at breakeven for the quarter. But still, Beef improved \$68 million over the first quarter of '08. The Pork Segment continues to do very well as does Prepared Foods. I also like what I see with our international and our renewable products initiatives. And I am sure, but I am sure that the Chicken Segment is what your concern is today. As you know, we have been challenged by losses associated with the grain positions as well as demand.

In early December when our demand began a noticeable decline, we took targeted production cuts at our locations most affected by current market conditions. While this does help us in our continuing efforts to balance supply with customer demand, the biggest opportunity for our Company is, to succeed is in better execution of our domestic chicken business. We got away from the fundamentals, and it hurt our competitive position. Over the past several months, we have worked hard and we have made improvements in our, the parameters that are important to us like labor, yield, general plant efficiencies and most importantly in our mix. We have also stepped up our efforts to improve customer service, to help drive their business as well as our business. Although our execution is better, we have a renewed sense of urgency to return our chicken business to profitability and to regain our position as best in class.

We are concentrating on selling the whole bird rather than growing a chicken for its wings and its breast meat and expecting the export market to take the rest. Now Dennis will give you more details on Chicken as well as Prepared Foods, I mean Donnie will give you more details on Chicken as well as Prepared Foods. Jim will talk about the beef and pork business, but first let's get a financial update from Dennis Leatherby.

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**Dennis Leatherby - Tyson Foods, Inc - CFO**

Thank you, Leland, and good morning, everyone. As stated in our press release, in Q1 '09 we lost \$0.30 per share compared to a \$0.10 per share profit in Q1 '08. Our quarterly results include \$20 million in lower of cost or market adjustment in Chicken, which is essentially pulling forward losses we would have otherwise realized in Q2 as we sell the product. Also, we had \$19 million of foreign exchange-related losses. Our effective tax rate for the quarter was 56%. In general, the quarterly rate is calculated based upon the estimated effective tax rate anticipated for the full year. The unusually high estimated fiscal '09 expected and Q1 actual rates are driven by several factors, including anticipated increases in valuation allowances relating to state and foreign net operating loss carry-forward, as well as certain nondeductible expenses and losses. The foreign exchange losses resulted from the rapid strengthening of the dollar this past quarter and its impact on dollar-based payables and loans.

These items were partially offset by risk management activities. In that regard our balance sheet exposures are monitored and when deemed necessary, associated risks are either eliminated by paying off the exposure or mitigated by appropriate hedging mechanisms. A substantial

portion of the loss in Chicken came from hedging activities and the results reflect a negative \$188 million impact for the quarter. About \$50 million of the \$188 million relates to hedges for Cost Plus customers, which we will recover via product pricing in coming quarters. Another approximately \$70 million is for fixed price contracts for which we expect future physical offsets. The remaining balance of approximately \$68 million resulted from the unexpected drop in grain prices. As for our other key financial measures, cash on hand at the end of the quarter was \$166 million and total debt was approximately \$3 billion, a slight increase from last quarter due to Dynamic Fuels receipt of \$100 million in funding from the Gulf Opportunities Zone bond issue.

Total debt to cap at the end of Q1 was 38.6%. Capital expenditures for Q1 '09 were \$84 million compared to \$100 million for Q1 '08. We have reduced our outlook for fiscal '09 capital expenditures to under \$500 million. Also please note we have another \$85 million of restricted cash for the construction of the Dynamic Fuels plant, which is not included in our \$166 million cash balance cited earlier. Interest expense increased \$10 million compared to the same quarter last year and totaled \$63 million. Major components of this increase include a little more average debt, mark-to-market on an interest rate swap and financing fees associated with the credit amendments. We have a strong capital base, and at the end of this quarter our liquidity was \$1.1 billion. I would like to thank our bank group of more than 30 institutions for their continued, ongoing support of our Company and their unanimous vote for our covenant amendment in December. For Q1 we were in compliance with both of our debt covenant ratios.

As you know, we are required to maintain our EBITDA to interest expense ratio at a minimum of 2.85 times, and we ended up around 3 times. Our debt to EBITDA covenant allows a maximum of 4.5 times, and we ended the quarter at about 4.2 times. We expect these ratios to improve in Q2 and beyond. Despite the challenges we faced in Chicken, I am very confident about the direction Tyson Foods is headed and where we will be in the future. Our beef and pork businesses are best in class, and our chicken business has improved considerably over the past six months especially, and is well on its way toward again being best in class in the future. Our Prepared Foods business is solid and improving, and I am really looking forward to great results in future years from our renewable products and international investments. We are playing to our strengths, overcoming our weaknesses and doing what is needed to become a better, stronger Company. With that I would like to pass it over to Donnie Smith to report on the Chicken and Prepared Foods Segments.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Thanks, Dennis. Morning, everyone. Well, there's no doubt the first quarter was extremely difficult for our Chicken Segment. We had a \$286 million loss for the quarter with an operating margin of negative 12.8%. As Dennis mentioned, a little over \$200 million of the loss is attributed to hedging losses and a lower of cost or market adjustment. If you adjust for those factors, our performance improved almost \$80 million compared to the fourth quarter on an operating basis on increased volume of 4.7% versus the same quarter a year ago. Note that over half of the volume increase in Chicken is attributable to international operations, not domestic production. We still have some forward grain contracts to work through that are going to impact our second quarter results, but we anticipate we will get past almost all of the negative forward grain purchases by the beginning of the third quarter, with the exception of those of our Cost Plus customers.

In recent weeks we have seen industry indicators headed in the right direction. The USDA has reported that since mid-November egg sets, chicks placed and slaughter pounds have been down on average about 6% to 7% versus the prior year. And Urner Barry boneless, skinless breast prices are up about \$0.20 in the last couple of weeks. While this is good news, we can't rely on industry fundamentals to get us where we need to be. We must stay focused on execution. Our goal is to be best in class in poultry production, and we have made tremendous progress on improving our live costs, our product mix, yields, plant efficiencies, flexibility, as well as our labor management. It is a very much a back to basics approach to our operations. As you know, we have been back on AgriStats now for about a year and we have seen good steady progress in operations profit, moving from below average last spring to above average for the most recent period reported.

As for international chicken, demand is recovering as are prices. Liquidity is still a concern, and we see this in the inability of our customers to get letters of credit. Tight credit and the strengthening dollar have pretty much ruled out any short-term chance of getting back to the pricing levels we had in Q4 of '08. However, the inventories that built up during the last quarter when trades slowed for three or four weeks are now being reduced back to targeted levels. Within our newly acquired businesses in China and Brazil, existing operations were able to offset the start up cost of the greenfield plants, which is what we had planned. Rick Greubel and his team are doing a great job of executing our strategy to build a multinational enterprise, and we are all excited about the potential there. There's a lot of potential in renewable products, too. In addition to the core rendering business, Jeff Webster and his group are making good progress across all of the renewable products platforms.

You have probably heard us talk about the energy platform on several occasions, but they're working on multiple projects to convert non-prime products into high margin initiatives. They are doing a lot of work around non-woven materials made from feathers. They are doing work around pet foods, nutritional supplements, bioplastics, and the list goes on. Jeff's group has a lot of interesting plans underway that are making a

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contribution to the bottom-line that's growing steadily. Turning to the Prepared Foods Segment, sales volume was up 3.7% with an operating margin of 4.7%, which was within the normalized range. We are very happy with the demand for our pizza toppings, bacon, hams, deli products and private label lunch meats. Our Mexican original business had a record quarter, as demand continues to grow for wraps, tacos and flat breads. All these items are well positioned for value menus.

In this economy we continue to see customers turning to retail more often for their food choices, and retail deli is an excellent opportunity to capitalize on new customer behaviors by offering alternatives to casual dining with our value-added and Prepared Foods items with higher margins than food made from scratch. I know you have all heard it said before, but having a diversified distribution channels for Prepared Foods and Chicken really serves us well as dollars shift among the various categories of food at home and food away from home. The food service industry suffered in 2008 and will continue to suffer in 2009. Technomic is predicting flat traffic growth and negative real sales for food away from home. The period we are now in is the most challenging food service environment since Technomic began tracking data in the mid 1970s. Full service dining has struggled the most, although there are a few bright spots of major casual dining chain customers showing the same-store sales increases.

Limited service restaurants have weathered the economy well by driving traffic with new products and value-type products that in many cases we have helped them develop. We have had a lot of good news coming out of the retail channel in our Chicken Segment. We are doing very well in our efforts to regain our position in retail fresh chicken. Tyson branded chicken is exceeding category growth in both dollars and pounds. The value added category, however, is under a bit of pressure as some consumers look for less expensive options to stretch their budgets. We saw the frozen convenience foods category growth stall during Q1 versus the 6% to 7% growth rate in the previous 52 week period. Fortunately, last fall we reduced the package weight across many of our products in this line with the goal to keep our products well within reach of these consumers and prevent them from trading down or trading out of the category.

Before I turn it over to Jim, let me take a second and thank our team members for the great progress they have made as we strive to return our chicken business to profitability. All of our folks in poultry and Prepared Foods are focused. They are working on all the right things, and I just can't thank them enough for all they're doing. I'll now turn the call over to Jim Lochner, who will give you some details about our Beef and Pork Segments.

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Thanks, Donnie, good morning. The Beef Segment broke even this quarter, as good October and November results were offset by a poor December. Still this was a big improvement over Q1 '08 when Beef lost \$68 million. A sharp decline in hide and international variety meat demand, coupled with falling fat and tallow values, pushed the drop credit to its lowest level in at least 20 years. Five tallow values were slow to adjust and only recently declined to reflect the lower drop credit values. We are also seeing soft demand for the more expensive cuts of meat, as the casual and up scale dining Segments are still experiencing reduced business. Chuck, round and ground beef demand remains adequate and continues to carry an abnormally high percentage of the cutout value. Concerning cattle supplies, in our Q1 industry steer and heifer slaughter was 6.9% lower, with December over 9% lower as compared to a year ago.

As a result, our capacity utilization was 75% for the quarter versus 78.6% for Q1 of '08. However, our daily efficiencies and throughput improved dramatically. If you look at cattle on feed numbers, you will see heavier placement weights and lower placements over the last six months. This is partly because cattle have been spending more time in backgrounding operations and less time in feed lots due to the economics around the cost of gain. Additionally, there were fewer imports of Mexican and Canadian feeder cattle. However, by our count the actual reduced slaughter rate in October through December, coupled with reduced slaughter rates in July through September, substantially offset the reduced placement numbers. Regarding Lakeside, we are still awaiting the final ruling from the Competition Bureau. There has been no change in the situation since our last call.

Looking forward in the Beef Segment, it will take some time for hide and leather values to recover. There's a large inventory of hides to work through, but we do not expect to see additional pressure on hide values, and US hides are a preferred category worldwide. Also, we are optimistic about international variety meat demand's recovery. Domestic demand for beef will largely depend upon the overall economy, but we expect to see a continued trend toward more ground beef, chuck and round meat demand versus steak cuts. When the revenue declines, it is our job to generate a spread. We have been able to recover our margin in the last couple weeks and believe the adjustment in live prices should hold as we move into the spring.

The Pork Segment had another good quarter coming in at a 6% operating margin despite similar challenges as Beef. Our year-over-year Q1 pricing and cutout improved, but we processed fewer head and therefore, less pounds. We feel very good about our execution and the relationship

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between our total cost and revenue and will continue to focus on maximizing values for our products and minimizing operating costs. Our plants ran well, are well staffed and are cost effective. Pork variety meat demand has seen similar declines to that of beef, but we expect worldwide demand for pork and pork variety meats to recover fairly quickly. We did see some influence from the Mexican destination challenge, but hog prices adjusted rapidly to the news. The box versus combo shipment issues you have probably heard about appear to be resolved, but we have a contingency plan in place should we have to switch from combos to box shipments. The US sow liquidation was less than we expected, however that, coupled with the reduction in Canadian board animals entering the US market, will result in fewer hogs available than in '08, but still adequate for us to manage margins towards the high end of the normalized range.

Capacity utilization for the quarter came in at 90% versus 94% for Q1 '08, and we'll continue to watch forward hog supplies and make adjustments accordingly. I have been very pleased with the fresh meat management team and their efforts to maximize revenue, control costs, and manage growth margins. I will turn it back to Leland to close.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Thank you, Jim. Before we take your questions, I want to relate to all of you listening – our analysts, our investors and our team members – that I have complete confidence in this management team. That's why I asked Jim and Donnie to do the Segment reports, and that is why I have asked Rick and Jeff to be here to answer your questions about international and renewable products. I am very confident we have got the right people running these businesses. They're going to continue to execute our core strategies because they are right for this Company long-term. I know you are probably wondering or you may be wondering how long I am going to be here and what our succession plans are. As I have said, I have great confidence in this team, which is why I think we can find the right person within the existing talent pool here at Tyson. As for timing, I will be here as long as it is necessary to get this chicken business turned around and to allow the board adequate time to select a new CEO. I don't know how long that will take, but my goal is that it will be sooner rather than later. I enjoy being here again and frankly I wasn't all that, but frankly I wasn't all that tired of being retired. So this process is going to move as quickly as possible. It will be a very diligent process, and we are going to do what is best for this Company. I am optimistic about the Company's performance going forward. With the declining inputs and the momentum that we are developing, we anticipate returning to profitability within the next two quarters. I can tell you, I like the energy I am seeing from the people around here, there's a spring in the step that I hadn't seen in a good long while. They're attacking the issues head-on with a lot of confidence, and they have been making great process. With that said, I'll turn the call back to the operator and we will answer your questions.

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**QUESTION AND ANSWER**

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**Operator**

(Operator Instructions) The first question is from Christina McGlone.

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**Christina McGlone - Deutsche Bank Securities - Analyst**

Hi, good morning.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Good morning.

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**Christina McGlone - Deutsche Bank Securities - Analyst**

Jim, I have a question on the beef side. You ran through a lot of information, but I just want to make sure that I understand with packer margins now turning positive, given the low drop credit, the fact that the choice-select spreads narrow, that cattle supplies tightening, how do you keep it positive? How is the outlook there strong?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

One key thing that's different than what cattle and feed reported, they reported a marketings number that was actually positive for December, and if you heard my remarks, when we look at the actual fed steer and heifer slaughter data, December was 9% year-over-year less than, and the

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quarter was 6.9%. So we have had more available cattle that have come into January and February as the marketings and the actual numbers are less than would be implied. So the key is, right now, that we are not trying to -- we are running our business not oversupplying the demand and keeping ourselves in as good a balance as we can. We have seen these live cattle prices adjust accordingly.

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**Christina McGlone - Deutsche Bank Securities - Analyst**

Is there -- my follow-up, in terms of reducing slaughter rates, is that, is there anyway to quantify the, the impact on your fixed cost absorption from running, running less per week?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

The answer is yes. We have to always watch our volume versus our, our footprint capacity and when you do run less your fixed costs do come up. It varies by plant.

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**Christina McGlone - Deutsche Bank Securities - Analyst**

Okay. Thank you.

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**Operator**

Our next question is from Ken Zaslow. Sir, your line is open.

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**Ken Zaslow - BMO Capital Markets - Analyst**

Good morning, everyone.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Morning.

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**Ken Zaslow - BMO Capital Markets - Analyst**

I will stick to the chicken side. It seems like from the press release you guys cut 5% production in December. The two questions that I would have would be one is how do you see the demand outlook and if so do you, if it is going to be a little bit lower, does that mean that you are going to still have year on year lower production going into 2009?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Ken, this is Donnie I will take that. We did see demand drop in December. Our visual trigger against that was inventories increasing, so we cut production. As we look forward, we have kind of stabilized from that run rate, but we are actively, as you know, always out growing our business. So, what we will do is we will just watch what our sales pace is, and when that sales pace shows us that our inventories are stabilized and we are back in good shape, then we will make the next decision. We watch that map every week. On your production question, based on what we are planning now, our growth rate '09 over '08 would be flat to maybe up 1%.

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**Ken Zaslow - BMO Capital Markets - Analyst**

Okay. But you said you've stabilized at the lower level?

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**Donnie Smith** - *Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods*

Say that again?

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

You said you stabilized at the lower level. So you cut the 5%. So you haven't pushed it back up. You have left it at that level, whatever that lower 5% was. Is that fair?

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**Donnie Smith** - *Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods*

Yes. Sorry for the pause there. Thanks for clarifying your question. Yes we have left production at that level.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

And the 0 to 1% is domestic or combined Company?

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**Donnie Smith** - *Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods*

Most of it, that is the domestic number.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

Okay. Great. Thank you.

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**Donnie Smith** - *Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods*

You bet.

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**Operator**

Your next question is from Christine McCracken. Your line is open.

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**Christine McCracken** - *Cleveland Research Company - Analyst*

Good morning.

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**Leland Tollett** - *Tyson Foods, Inc - Interim CEO*

Morning.

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**Christine McCracken** - *Cleveland Research Company - Analyst*

Just wanted to dig a little deeper on the changes you're making in the chicken business, specifically on yield and mix. Can you quantify at all how much of a margin benefit you could get from those programs over the longer term?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Christine, I don't want to put a number on it because I don't think it is something that we can just plug into a model and get to, but I will tell you this. We have worked hard and steady on improving our mix, improving our yields. We are seeing our numbers in the rating agencies, like AgriStats, improve month over month, so we are very much getting back to the fundamentals of our business. I like the progress that we see, and I think you will continue to see good, steady progress in how we manage our business. I think the big deal for us is managing it. As Leland mentioned in his comments, we are focusing on selling the whole bird. We are focused on every bird we grow, every pound we process and every product we sell improving our go-to-market strategy. So, can't put an exact number on it, but we are seeing steady improvement quarter-over-quarter.

**Christine McCracken - Cleveland Research Company - Analyst**

Just in terms of your mix then, because you've announced some plant conversions here lately, can you talk about why you would move toward a larger bird. Is that part of that mix improvement? It seems to us that that's a pretty saturated segment already. It is not clear to me why you would move, I guess, to a tray pack or in some cases maybe even a larger bird. In the long run, is it a permanent impairment maybe of that fast food industry, or can you just comment on that?

**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Frankly, I like our mix of large birds. As we have talked about, we have converted a couple of complexes in this last year. I don't think we are, to use your term, over saturating that part of the market. We think we have got our big birds, the ones we are producing is a pretty good percent of the mix. We are focused on doing a better job of taking trucks off the road and moving within plants and shipping more directly out of the plant, and it may be in a whole bird form rather than putting, fronting the bird and putting boneless on the market, that type of thing. So those are the type of things we are talking about as we talk about improving our mix.

**Christine McCracken - Cleveland Research Company - Analyst**

All right. Thanks.

**Operator**

The next question is from Ann Gurkin.

**Ann Gurkin - Davenport & Company - Analyst**

Good morning.

**Ruth Ann Wisener - Tyson Foods, Inc - VP, IR**

Morning, Ann.

**Ann Gurkin - Davenport & Company - Analyst**

Wanted to just ask your opinion on what do you think will reverse or strengthen demand for chicken. It has been weak for some time, dropped off further in December, according to you all. What is needed to get that demand back?

**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Improvement in the general economy would help a little bit. We are still one of the most advantageously priced products on the market. So it will basically be an economy change, I think, as we look forward.

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**Ann Gurkin - Davenport & Company - Analyst**

Okay. And then, Leland, you talked about urgency to get, your sense of urgency to return the chicken business to profitability. How long will you let the current plan run before you will make adjustments again?

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Well, we will adjust as we deem necessary, but I like the place we are right now. I like the enthusiasm. I like the momentum that we have got going, and we believe we have our business aligned for the long-term.

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**Ann Gurkin - Davenport & Company - Analyst**

Great. Thank you.

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**Operator**

Chris Bledsoe, you may ask your question.

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**Chris Bledsoe - Barclays - Analyst**

Good morning.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Morning, Chris.

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**Chris Bledsoe - Barclays - Analyst**

Just a quick follow-up on the, if indeed the economy does improve, and with that you could expect to see chicken food service demand pick up. Kind of feel like the downturn in the first place was maybe driven, in a lot of ways by more the cost side of the cycle rather than the pricing side of the cycle -- so the feed costs, kind of influence from feed, from fuel on the feed complex. In a kind of pro-cyclical environment where demand is improving domestically or globally, and we see the fuel complex bringing the grain complex up with it, chicken profitability I would expect maybe could come under pressure with rising feed costs. I am just wondering if that has kind of been a, if whether we are in a new paradigm that has been sort of discussed internally and whether there, in some respects, need to be more of a push to act counter-cyclically instead of pro-cyclically.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Let me comment on that real quick, Chris. This is Donnie, again. One of the things that we have done as we've turned this business around and really start focusing on getting us back to profitability is, we have reduced a lot of our dependence on long-term fixed price agreements. We have shortened up the pricing cycle quite a bit across most all of our business segments and so, we feel like we are in a better chance now to react to the input side than certainly we would have been a year ago or more. I think that is, is key. But I will tell you, there is a lot of opportunity in this business, as we focus on our fundamentals, to drive profitability, and overall there's plenty of money to be made here, we feel good about our business.

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**Chris Bledsoe - Barclays - Analyst**

And then on the move to big bird deboning, I am just trying to marry that with comments earlier about a focus on also whole bird. I guess I always perceived big bird deboning as more of a, by definition, more of a cutup type of product and whole bird, and especially in the international markets, more of a small bird type of venture. So I am just trying to marry the two comments. Maybe it is just a misperception on my part.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Probably a syntax deal. When we talk about whole bird, think of it in terms of the entire bird. What we don't want to do is, we don't want to process a chicken and just worry about selling the tenders off of it or just worry about selling the wings off of it. We began a little phrase around here, "when that bird dies it dies all over." And when we go to market, we have got to have a strategy to market the entire bird, and I think we have been a little bit out of balance on that in our past. But we are getting laser focused on making sure that we have got the entire bird and its profitability in mind as we go to market. Does that make sense?

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**Chris Bledsoe - Barclays - Analyst**

It sure does. I am going to jump back in the queue and ask some questions a little bit later as well. Thank you.

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**Operator**

Vincent Andrews, you may ask your question.

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**Vincent Andrews - Morgan Stanley - Analyst**

Good morning everybody.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Morning.

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**Vincent Andrews - Morgan Stanley - Analyst**

I am wondering if you could -- obviously there was probably a pretty interesting competitive dynamic in chicken in the quarter with one of the larger competitors filing. Could you discuss what the, what you believe the negative impact of that was, if any, or any positive impact from it as well, and how you see the competitive dynamics shaping up going forward in chicken?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Vincent, I will tell you we just stay focused on our business. We are watching our demand and our supply. When we saw that getting a little bit out of balance late in Q4, we made an adjustment. I can't comment on that type of thing.

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**Vincent Andrews - Morgan Stanley - Analyst**

Okay. And maybe just as a follow-up to that, if things are indeed going to ultimately improve in chicken, whether it is because of the economy or the dollar or what would happen, what do you think a normalized level of profitability could be in this chicken cycle on the upturn?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

We like to think of normalized earnings in our Chicken Segment somewhere in the 5% to 7% EBIT range.

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**Vincent Andrews - Morgan Stanley - Analyst**

So that would -- so no change to that view.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

No.

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**Vincent Andrews - Morgan Stanley - Analyst**

Okay. Thank you.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

You bet.

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**Operator**

Ken Goldman, you may ask your question.

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**Ken Goldman - JPMorgan - Analyst**

Good morning.

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**Ruth Ann Wisener - Tyson Foods, Inc - VP, IR**

Good morning, Ken.

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**Ken Goldman - JPMorgan - Analyst**

So, I guess my question is based on the macro economic conditions, and I mean a lot of people have been wrong over the past year trying to forecast when a recovery happens. So let's assume for a second that a recovery doesn't really happen until 2010. So you have less demand for high cuts of beef, less demand, perhaps, for pork and less demand for chicken breasts, and all of that to me sort of points to maybe not a real strong recovery for your margins until middle of 2010, early March or so. I know it is impossible to predict that far out, but I am wondering if you guys can help us understand a little bit about where the consensus number is compared to how you guys are looking at the year. You talked, Leland, about maybe a return to profitability in the next two quarters. Does that mean in the March quarter you won't be profitable? How are we on the street right or wrong in terms of our \$0.28 consensus number.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

I don't know that we want to get specific, but I can tell you that we are competitive. We are getting more competitive with all of these, the other companies, as Jim said, we are very competitive in beef and pork. The numbers that we get from AgriStats (and) from the Bank of America would indicate that we are much better competitive than we have been in the past, and we are headed toward the top quartile, if we are not already there in some areas. We will just take our chances with competing with the best of them.

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Let me add a little commentary on beef and pork. I will ask you to remind, our job is to try to get the relationship between the cost of goods, which is livestock, and revenue against our total costs. So that revenue, as revenue declines with weaker demand, in theory the cost of cattle and

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the cost of hogs will follow it down. Our job is to maximize our revenue, maximize our mix and make sure that our costs are in line. And so that spread tends to come back together fairly quick, if the industry works very closely at watching its revenues. So that is kind of the key component in those two Segments.

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**Ken Goldman - JPMorgan - Analyst**

That's a fair point and I understand it is a spread business. But you do have fewer cattle, you do have fewer hogs, which should raise those prices up and you have less demand. That's not a combination in general that you would prefer. Is that fair?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

The combination really, again, it works in reverse, too. As revenues go up, cost of livestock goes up, and it is really the same answer -- maximizing your revenue, keeping your costs in-line and optimizing your total spreads where you can. So, I always believed that the revenue overtime sets livestock costs. So we just have to watch the supplies and make the adjustments accordingly.

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**Ken Goldman - JPMorgan - Analyst**

Okay. Thank you.

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**Operator**

The next question is from Robert Moskow, your line is open.

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**Robert Moskow - Credit Suisse First Boston - Analyst**

Hi, thanks. I will go international. You have made several investments overseas in some emerging markets, and then you also have the Syntroleum JV. Can you guys give us some kind of estimate as to how long it will take for you to earn kind of a normal return on those investments and what could it add to your normalized EPS level? Thanks.

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**Rick Greubel - Tyson Foods, Inc - Group VP & International President**

Good morning, Rob. Rick Greubel here. When we made the investments last quarter, at the beginning of the first quarter here we, particularly in Brazil and China, we talked about that these businesses would be a combination of existing operations as well as some start-ups of greenfields. So our plan through '09 is to utilize those existing business, prior operating businesses, to by and large offset the cost of the greenfields in China and the start up operations in Brazil.

So we are really looking at '10 to be the first year that we are going to see any contributions from those businesses from the standpoint of an earnings per share. And then it is going to be 2011 before we are at kind of the full capacities in Brazil and in China that we discussed when we bought those businesses, which was, just to remind you, about 4 million birds a week in Brazil and about the same number, maybe just a little more than that in China. So our target, just to remind you again, is that these investments will at least make a kind of a 20% ROIC measurement, and that is the hurdle that we use when we, when we look at expanding or increasing the operations there. Okay?

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**Robert Moskow - Credit Suisse First Boston - Analyst**

Okay. Well, let's, at 20% ROIC can you give me a total on what the invested capital is and then maybe, on a birds per week basis, are the margins pretty similar to the US? Maybe we can put some more numbers around it.

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**Rick Greubel - Tyson Foods, Inc - Group VP & International President**

Sure, just to give you a flavor for some kind industry standards there, and I will take the invested capital piece second and the industry margins first. Brazil has traditionally been, at least over the last five to seven years, more profitable than the US industry, and we would expect that to continue. China's normalized margins are pretty similar to what we, what we see in the US. The big benefit in China is increasing demand. As far as invested capital, it is about \$200 million in both of those geographies and the, in Brazil more than half of that has already been put into place, in China we are still waiting on Government approval for the Xinchang joint venture, which we expect to have in the second half of the year.

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**Robert Moskow - Credit Suisse First Boston - Analyst**

Okay. Thank you very much.

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**Rick Greubel - Tyson Foods, Inc - Group VP & International President**

You want maybe I will let Jeff comment a little bit here on the renewables piece.

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**Jeff Webster - Tyson Foods, Inc - Group VP Renewable Products Group**

Yes, Robert. Let me give you -- this is Jeff -- a couple pieces on Dynamic Fuels, our joint venture with Syntroleum. As we have said, the plant is on budget, on schedule for being mechanically complete by the end of the year. So think of that as end of December. So when we hit January of next year, we will go into start-up and we should be at what I call normalized earnings by basically June of 2010. What we have said publicly is for Dynamic Fuels, the total joint venture, that should deliver between 35 million and 60 million in EBIT. And also to give you a feel for just kind of the wild ride of crude oil going from 70 to 140 and back down again, as a simple rule of thumb for you, this is basically a spread type of business, if you look at the price at the pump of diesel, which let's say it is \$2.40 a gallon, and you look at the price of our feed stock, which is about \$0.20 a pound or \$1.60 a gallon, that spread of \$0.80 times 75 million gallons would put you at the high end of that range. We are very comfortable with where we are on building the plant, on our schedule, on our budget, and very comfortable with where the margins would be as well.

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**Robert Moskow - Credit Suisse First Boston - Analyst**

You add these two pieces together you'd probably get a minimum of around \$0.20 a share of incremental earnings?

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**Rick Greubel - Tyson Foods, Inc - Group VP & International President**

That would be, Rob, that would be speculating at this time, and what we are going to try to do is manage the business as prudently balancing the opportunity we have on the demand side with our, with the growth of our investments in those geographies. We haven't set a number out from the standpoint of an earnings per share on the international operation.

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**Jeff Webster - Tyson Foods, Inc - Group VP Renewable Products Group**

And keep in mind Dynamic Fuels is a 50/50 joint venture, so our 35 million to 60 million EBIT range is a 50/50 with us in Syntroleum.

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**Robert Moskow - Credit Suisse First Boston - Analyst**

That's right. All right. Thank you very much.

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**Operator**

The next question comes from Tim Ramey, your line is open.

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**Tim Ramey - D.A. Davidson & Co. - Analyst**

Good morning.

**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Morning.

**Tim Ramey - D.A. Davidson & Co. - Analyst**

Leland, the call is remarkably upbeat for the content of the quarter. I have heard, "We feel good about our business." I have heard, "I like the place we are right now." It just makes me want to juxtapose – what has changed, I guess, in the past three weeks, or has anything changed in the past three weeks? Why do we feel good about the business? Why do we like the place we are right now, if not too long ago it generated a \$22 million EBIT loss before, before mark-to-market hedges or before, before hedging?

**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Well, keep in mind, Tim, I have been back here three weeks. The reason I like where we are right now is we are looking forward, not backward. We are, we have our people in place that I am comfortable with. They're energized. We are out beating the bushes getting new business. We are improving some of the business that we got. So, from that standpoint, that is what is making me comfortable and optimistic.

**Tim Ramey - D.A. Davidson & Co. - Analyst**

Okay. The change in production on chicken in December, I mean I am having trouble, maybe this is a question for Donnie, rectifying or reconciling the kind of the strategy of "We are not going to cut. We cut before." And then we kind of get to the end of the darkest day when chicken margins are about to turn positive, and we cut. What, how would you describe that, Donnie?

**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

Sure. Tim, we have said all last summer that we were matching our supply and demand, and frankly, that will continue to be our goal. When *our* demand and *our* supply got out of balance in December, then we made the appropriate adjustments, and we will continue to operate that way. The inventory growth was our trigger against that. That's how we will decide on future cuts or increases. We will not decide based on the false premise that *our* supply reductions result in an *overall* supply reduction. The facts just don't support that assumption. I firmly believe that we will create a lot more shareholder value through improving our daily execution fundamentals than we ever will with production cuts.

**Tim Ramey - D.A. Davidson & Co. - Analyst**

Okay. Thanks.

**Operator**

Thank you. The next question is from Heather Jones.

**Heather Jones - BB&T Capital Markets - Analyst**

Good morning.

**Leland Tollett - Tyson Foods, Inc - Interim CEO**

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Good morning, Heather.

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**Heather Jones - BB&T Capital Markets - Analyst**

A couple -- two questions. One, your production cuts -- are those coming from primarily weight or headcount? Because we haven't seen really a move since December in either egg sets or average weights. I am just wondering if you could speak to that.

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

A little bit of both. But there again, to my point, sometimes it is hard to see us in the Egg Sets number. So I think you just validated the comment I made to Tim. So, a little bit of both there, and really Leland said in his comments earlier, we really took our cuts where our business seemed a little bit soft, where we were growing inventory. So it, I don't know, I have answered it three ways. That's about it.

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**Heather Jones - BB&T Capital Markets - Analyst**

So some of your cut, you are saying, in December was initially just coming out, you said this was coming out of inventory?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

No, no, no.

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**Heather Jones - BB&T Capital Markets - Analyst**

What did you just say?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

We made production cuts, some in our placements, some in weight, different places. We made the cuts in the areas of our business where we were recognizing some softness and the intention of the cuts at that point in time was, we saw our inventory building, which it had had not done before. As an example, our inventories at the end of Q4 were lower than they were at the end of Q3. But at the end of Q1, our inventories were higher than at the end of Q4. That was our trigger that we needed to do something different. So we made that production change, and incidentally, we are seeing our inventories starting to come down now. We feel good about our current sales pace and the fact that we made the right decision. Let me make one really important point here. We did not lose any market share in Q1. Matter of fact, might have gained a little. Our customer demand dropped, and we grew our inventory unexpectedly. We chose to cut production rather than have to drastically lower our pricing to clear the inventory during a period of traditionally soft demand anyway, Q2. So, that is where we ended up.

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**Heather Jones - BB&T Capital Markets - Analyst**

Okay. And then my second question is going back to the normalized margin comment, given the kind of improvements you have made as far as yield, mix, et cetera, and it sounds as if you have further improvements to make, once we, once industry supply and demand is matched, pricing improves, et cetera, why wouldn't your normalized margins be better than they were in prior cycles?

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**Donnie Smith - Tyson Foods, Inc - Senior Group VP Poultry & Prepared Foods**

I -- I will quote something Leland told us the other day. Let's get through breakeven before we start setting targets higher than that, and we are getting as close to that as we can as fast as we can. I don't, I don't think I can sit here and predict with the kind of economic volatility we have seen around us and get comfortable calling what our future margins are going to be a few quarters down the road or that type of thing. It is just way too early to make that call. I will say this though, we are seeing industry fundamentals get better, but more importantly, we are seeing our fundamentals get better. So we are going to continue improving our core business and improving our competitiveness in this industry, and then when the fundamentals recover we will like what we see.

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**Heather Jones - BB&T Capital Markets - Analyst**

Okay.

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**Leland Tollett - Tyson Foods, Inc - Interim CEO**

Let me hop in a little bit. When we talked about mix and yield and plant efficiencies and that sort of thing, we were not as far off as maybe we have left the impression. As a matter of fact, we are very, very competitive. We were just not as good as I wanted us to be. And as we look at the AgriStats numbers, we are not out of joint cost-wise, but we can't save ourself to prosperity. We have got to get our product mix right, and we have got to get the price out of the marketplace. That's where we are going to win.

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**Heather Jones - BB&T Capital Markets - Analyst**

Understood. Okay. Appreciate it.

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**Operator**

Farha Aslam, you may ask your question.

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**Farha Aslam - Stephens, Inc. - Analyst**

Hi, good morning.

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**Ruth Ann Wisener - Tyson Foods, Inc - VP, IR**

Good morning, Farha.

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**Farha Aslam - Stephens, Inc. - Analyst**

For Jim Lochner, could you just share with us why you think pork margins are going to probably be above normal going forward, as was in your press release, and can you just discuss your availability of hogs and your outlook for export of pork?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Sure. First of all, the herd sow liquidation, as reported in the last Pig Crop Report, was 191,000. As you know, that's the base supply chain. Now that was less than we expected, so you can convert that to roughly slightly less than 4 million hogs. So if you look at the kill in '08 it was around, right around just short of 115 million. So if we drop back, let's say, to 109 to 110, that's roughly the same that we had in '07 where we were starting to see and above and pushing into that higher normalized earnings. So I don't see a major, even though we are not going to have the peak supply we had in '08, we are not going to see a drastic reduction in supply. And on pork exports, and Rick can jump in and add a bit to this comment, they were extremely strong in '08, and we are starting to see some interest out front again in replenishing. You have to always keep in mind one thing, and that is the world supply of pork production is down, and pork demand as a primary protein I don't think is shifted downward to that degree. So, there could be a supply shortage worldwide. That's the basic two premises.

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**Rick Greubel - Tyson Foods, Inc - Group VP & International President**

Farha, Rick here, good morning. I would just add to Jim's remarks there that a couple of things to keep in mind with regard to pork exports is that pork is still a good value globally, relative to the other proteins. Herds are down in the major markets that we have to, production markets that we have to compete against. And we were able to negotiate an increase, a doubling in the quota going to Russia, and we are already seeing the

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impact of that as liquidity comes back into these markets and demand, as you know, protein consumption is highly correlated to GDP growth, and most of the developing world markets that take our pork exports all will see a positive GDP growth this year.

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**Farha Aslam - Stephens, Inc. - Analyst**

Thank you. And Jim just as a follow-up, you had gains in both of your cattle and your hog divisions, could you discuss kind of where you stand with your mark-to-market versus your physical and kind of have you changed how you are buying pork and beef going forward, so should we expect more gains going forward?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Let me clear up on the mark-to-market. We did change in Q3 forward bought/forward purchased cattle and qualified that, that's a qualified hedge accounting. And before that, was all mark-to-market. So on procurement on forward bought cattle starting in Q3, the new transactions went on hedge accounting. Keep in mind that there's always a physical offset. So if we take a position we have the physical inventory behind it. So the mark-to-market differential from that transaction will be minimized simply because they more qualify for hedge accounting. I know that may be confusing, but that's really the answer on the majority of the beef hedges.

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**Farha Aslam - Stephens, Inc. - Analyst**

So going forward, we shouldn't expect more – too much more benefit from mark-to-market?

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Well, the, on the other side, forward sold product would not qualify, so there's always the potential for mark-to-market influence from those.

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**Farha Aslam - Stephens, Inc. - Analyst**

Okay. And then in pork, you had a gain this quarter, are you buying pigs differently, because we have heard that farmers are trying to go out and sell their hogs forward to packers as much as possible.

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

We have not changed that because the majority of that was a, was on hedge accounting before, and we have seen this general trend for producers really watching the forward CMEs and making a decision. So if we do take those positions again, we will, they will end up being covered under hedge accounting.

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**Farha Aslam - Stephens, Inc. - Analyst**

Okay. So we shouldn't expect much gains or losses going forward when we are thinking about (multiple speakers).

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**Jim Lochner - Tyson Foods, Inc - Senior Group VP Tyson Fresh Meats & Margin Optimization.**

Not in the Pork Segment.

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**Farha Aslam - Stephens, Inc. - Analyst**

Okay. Thank you very much.

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**Operator**

And now I would like to turn the call back to your host, Ms. Wisener.

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**Ruth Ann Wisener - Tyson Foods, Inc - VP, IR**

Thank you very much for your interest in our Company and attending the call today. With that we will end the call.

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**Operator**

Thank you for your participation. You may disconnect your lines at this time.

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