

# FINAL TRANSCRIPT

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## **TSN - Q4 2009 Tyson Foods Earnings Conference Call**

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Nov. 23. 2009 / 2:00PM, TSN - Q4 2009 Tyson Foods Earnings Conference Call

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**Leland Tollett**

*Tyson Foods - former CEO, President*

**Donnie Smith**

*Tyson Foods - CEO, President*

**Jim Lochner**

*Tyson Foods - COO*

**Dennis Leatherby**

*Tyson Foods - EVP, CFO*

**Rick Greubel**

*Tyson Foods - Group VP, International*

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*Calyon Securities - Analyst*

**Christine McCracken**

*Cleveland Research Company - Analyst*

**Ryan Oxenhendler**

*- Analyst*

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## PRESENTATION

**Operator**

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Welcome and thank you for standing by. At this time all participants are in a listen only mode. After the presentation we will conduct a question and answer session. (Operator Instructions) Today's conference is being recorded and if you have any objections you may disconnect at this time. I would now like to turn the meeting over to Ms. Ruth Ann Wisener.

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**Ruth Ann Wisener** - *Tyson Foods - VP, IR, Asst. Sec.*

Good morning and thank you for joining us today for Tyson Foods' conference call for the fourth 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.

First, Leland Tollett, our former Interim President and CEO will be joining us via telephone for opening remarks, and then he will get back to his much deserved vacation. Donnie Smith, our new President and CEO will provide overall comments as well as segment reports for Chicken and Prepared Foods. Reporting on Beef and Pork will be Jim Lochner our new Chief Operating Officer followed by the financial report from CFO, Dennis Leatherby. Also joining us on the call are Rick Greubel, Group Vice President and International President and Jeff Webster, Group Vice President of our Renewable Products division.

To ensure everyone has the opportunity to ask a question, please limit yourself to only one question. Please get back in the queue if you have another question and we'll get to you in the order you queued up until we run out of time.

I'll now turn the call over to Leland Tollett.

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**Leland Tollett** - *Tyson Foods - former CEO, President*

Thank you, Ruth Ann and good morning to you this Monday morning. You saw last week's announcement that our Board of Directors named Donnie Smith as CEO and Jim Lochner as COO of Tyson Foods. I'm excited about these changes and I am confident about our future with these two men leading our Company.

I was asked last January to come back to work and to help get our Company back on course, and when asked how long that might take, I jokingly said I think anyhow somewhere between three months and three years, hopefully that time would be sooner than later. Well that time is now. I really believe that I have done the job that I was asked to come back to do. We've made tremendous progress in a relatively short period of time. All of our business segments are profitable. Our weekly numbers look pretty good, and we continue to improve. I'm confident that the men and women who manage the Company will continue to make a positive impact as we move ahead. Donnie, Jim, and Dennis will discuss this quarter's, this past quarter's results and their views as we go into -- of our business as we go into fiscal 2010. Thank you.

Dennis?

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**Donnie Smith** - *Tyson Foods - CEO, President*

Thanks, Leland. Good morning, everyone. As you saw in the press release, excluding the Beef goodwill impairment which Dennis will explain a little bit, the fourth quarter was profitable for all four operating segments. Beef, Pork, and Prepared Foods were at or above our historical operating margin ranges. While total revenue was down in Beef and Pork, we successfully managed the spread, and they've been very profitable. Prepared foods is also doing very well with toppings, tortillas, crusts, bacon and lunch meats all meeting expectations. Parts of the Chicken segment are doing well now, and we're working to improve the rest of it.

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And to give you a quick update on our Renewable Products division, construction on the new dynamic fuels plant has been delayed a few weeks, but it's still on budget and expected to be complete in late January with start up in early spring. We did get our EPA registration completed, which is a big milestone for us. We're happy with the rollout of Fresh Pet, our alliance for refrigerated pet food. Consumer acceptance is high, and new products are driving share growth. We're in a test or rollout with most national retailers and are poised for expansion. Additionally we're beginning tests in club store channel. Pet treats is another exciting area for us as well. It's a \$3.4 billion category in the US, growing about 8% a year. We see opportunities for Tyson to participate in this high margin category. To support our entry, we're reopening an idle plant in Iowa and setting it up to produce Pet Treats. More on this in the future.

Now, for details on the Chicken segment, which in the fourth quarter posted an operating income of \$32 million with an operating margin of 1.2%. This is an improvement over the fourth quarter of 2008 when we had a loss of \$91 million and a negative 3.8% operating margin. For the '09 fiscal year, our operating income was negative \$157 million and a negative 1.6 operating margin versus a loss of \$118 million and a negative 1.3% margin in fiscal '08. Volume was up 10.4% for the quarter and 8.8% for the year with sales prices remaining virtually flat. 2009 was a 53 week year, and adjusted for the extra week, volume was up 2.7% for the quarter and 6.9% for the year.

2008 was a terrible year in Chicken. 2009 was about stopping the bleeding, and we did that and have been profitable since February. We've improved our live operations in areas like livability, feed conversion and shrink. We've made good head way on improving SG&A, and the team did an outstanding job of reducing inventory. We did have a few set backs from third quarter to fourth quarter. Except for wings, market prices for all Chicken parts were down and grain costs were up. Our international business struggled with market volatility and costs associated with establishing the new operations. To be successful, we must do a better job of marketing leg quarters too.

2010 will be better, but we're still facing some challenges. We know what needs to be fixed, and we know how to fix it. The issues vary from location to location, but we have specific plans in place to tackle. In general we've got to grow our volume, improve our return on sales, protect our cash and keep our inventory on target. We need to fill up our plants and get better at yields, line efficiencies and labor efficiencies. I think it's important to remember that we significantly reduced inventory in 2009, so to keep up with current domestic demand, we'll have to produce this year what we took out of inventory last year. We'll be doing what we should be doing, which is selling what we produce and not confusing the freezer with the customer.

So we've still got work to do and a lot to accomplish in our Chicken business, but I know we can do it because we've already done it in our Prepared Foods segment. 2009 was one of the best years we've had since we've owned this business. Lower Pork prices helped, but our people turned this business around through volume gains, better asset utilization and fewer fixed price contracts. Prepared Foods had a strong performance in the fourth quarter with the \$39 million in operating income and a 5.3% operating margin, which is a significant improvement over the fourth quarter last year when we had a \$5 million operating loss and a negative 0.7% margin. For the fiscal year, Prepared Foods had operating income of \$133 million with a 4.7% operating margin compared to \$63 million and 2.3% in fiscal 2008. Average sales prices were down 8.4% for the quarter and 0.6% for the year on increased volume of 11.7% and 5.2% respectively. Now adjusted for the extra week, quarterly volume was up 4% and annual was up 3.3%.

Our bacon business is doing very, very well with top line revenue up 33% in the last 12 to 18 months. We're the leading private label lunch meat producer in the US, and that business has really turned around in the last couple years. Going forward we believe we'll continue to see strong results from our Prepared Foods segment. Raw material costs are likely to go up but we've been able to move away from fixed price contracts toward more formula pricing, which should be beneficial for the fiscal year.

Finally I'd like to thank our Poultry and Prepared Foods team members for all their hard work this past year getting these businesses on the right path to realize their full potential. It's been a great effort, and I look forward to even more progress in the near future. Now I'll turn it over to Jim Lochner who I am very proud to have as our new COO to report on the Beef and Pork segments. Jim?



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**Jim Lochner** - *Tyson Foods - COO*

Donnie, I look forward to being back in Arkansas and involved in the day-to-day management of the Company as a whole. Now turning to our fresh meats operating results, the Beef segment made \$120 million or about 4% this quarter after adjusting for the goodwill. This compares to Q4 2008's 5.1% margin, which benefited from the large mark-to-market adjustment from Q3 of '08. There were no substantial mark-to-market adjustments between Q3 and Q4 '09. In Q4 '09, beef revenues per hundred weight and cattle prices were substantially lower than a year ago about 15%. Our weekly capacity utilization was just over five days but 2% higher than a year ago. We continue our focus on efficiency to improve daily capacity, operating cost and maximizing our revenue.

Our total fiscal '09 Beef earnings were 2% or \$214 million, roughly double the results from the fiscal '08 after adjusting for the goodwill impairment. Beef demand, and consequently revenue, continues under pressure on both the cut out and the drop credit. Year-end slaughter volumes for fed steers and heifers were down 1.4 million head, or about 5.15%, while cow slaughtering increased slightly from a year ago. Looking forward in the Beef segment my view of the fundamentals has not changed appreciably. We will continue to see soft demand for middle meats and portions of the drop credit items limiting significant product price appreciation. There will be a gradual decline in available head as the Beef herd continues to shrink about 1 to 2% and the dairy herd reduces its size; however the placement of feeder cattle later into the Summer and Fall this year will provide adequate fed cattle supplies throughout the majority of our fiscal '10. One other point, we will likely see heavy carcass weights from genetic improvement and management practices continue into fiscal '10 providing adequate supplies, which may additionally limit price appreciation. We will be watching the import and export balance closely as the weak dollar compared to the majority of last year may increase exports and limit imports lowering domestic product supplies. Our focus will continue to be on quality and customer service, maximizing revenue through mix between domestic and international sales channels and minimizing our operating cost to manage the margins. I'm very pleased with our Beef team effort on these critical elements.

Moving on to our Pork business, the Pork segment had a respectable quarter coming in at \$48 million, or 5.5% operating margin. This compares to a strong Q4 '08 of 7.5%. Capacity utilization for the quarter came in at just over 90% compared to about 86% for Q4 '08. Revenues were down substantially compared to a year ago, nearly 25% per hundred weight. Even though hog costs decreased during the quarter, they did not decrease equal to the revenue decline. For the fiscal year, Pork returned \$160 million or 4.7% return on sales. Year-over-year, total revenues declined dramatically largely due to decreased exports versus last year's records and the lower drop credit. Over the year, hog prices generally adjusted to the decline in revenues.

Looking forward in the Pork segment, we will see a gradual decline of hog supplies through the first half of our Fiscal Year with additional year-over-year declines into Q3 and Q4. We expect to see fiscal 2010 hogs available for slaughter to be slightly higher than 2007 or around 107 million to 108 million head. The key variable in revenue will again be export disappearance and its drivers coupled with the decreasing domestic production throughout the year. Our procurement team is closely monitoring hog supplies and availability around our plant locations. We believe we will have adequate supplies in our regions. Our operations and sales team have done an excellent job in controlling costs and maximizing our revenues, which should allow us to manage margins even as supplies and capacity utilization decline through fiscal '10. There's really nothing new or dramatic in the Beef or Pork segments, just an extreme understanding and focus on details so important to running these businesses profitably. I'm very, very pleased with our team's efforts and results and look forward to their continued success in 2010. With that, I'll turn it over to Dennis for financials.

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

Thank you, Jim, and good morning, everyone. As stated in our press release in Q4 '09 which included 14 weeks, we reported a GAAP loss of \$1.22 per share, which includes a non-cash \$560 million Beef segment goodwill impairment charge of \$1.50 per share. Excluding this impairment, Q4 EPS was \$0.28 per share, which is a nice improvement over \$0.13 per share in Q4 '08. For the fiscal year, which included 53 weeks, we reported a GAAP EPS loss of \$1.44 per share. Excluding the goodwill impairment Fiscal 09 EPS was \$0.06 per share compared to \$0.24 per share at fiscal '08. This \$560 million non-cash goodwill charge is largely



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a result of a fairly significant increase in our cost of capital which is used as a discount rate for goodwill valuation purposes. Our cost of capital increased from 9.3% to just over 10.1% due to the well documented disruptions in the global economy and credit markets as they affected us and our debt spreads. Please know that this charge does not reflect our view of the Beef segments current profitability or its future prospects in any way. In fact, as evidenced by Q4 EBIT margin of 4% before the goodwill impairment charge, our Beef team did an excellent job with performance well above our normalized EBIT range of 1.5 to 3%. It also had a solid year in fiscal '09 with a 2% EBIT margin before the goodwill charge and is well positioned for solid earnings and the years ahead as Jim described in his remarks earlier.

Other items of note in our Q4 and fiscal '09 results -- Grain costs. As compared to the same periods of fiscal 2008, operating results were positively impacted in the fourth quarter and 12 months of fiscal '09 by a decrease in grain costs of \$109 million and \$28 million respectively. Total debt at year-end was just over \$3.5 billion, an increase of around \$650 million from a year ago. More importantly though, our recent efforts to reduce debt levels have been successful. Net debt at the end of fiscal '09 was under \$2.4 billion, a decrease of \$280 million from a year ago. Through the end of fiscal '09, we bought back \$293 million of our bonds, although we have not made much progress recently as bond prices are pretty high. We expect we will continue to be opportunistic in purchasing bonds when they are priced reasonably. Total cash at the end of fiscal '09 including restricted cash, was approximately \$1.2 billion, an increase of over \$930 million from fiscal '08. Total liquidity, including restricted cash, increased to \$1.9 billion. Total debt-to-capitalization was about 45% versus 37% at the end of fiscal '08. On a net debt-to-cap basis it's about 35%.

Working capital improvements continue to be a good highlight. We benefited from a strong 6.8 day reduction in inventory days, or just over \$500 million compared to a year ago. Also, our accounts receivable improved by 1.9 days and is worth about \$170 million. Obviously this working capital improvement has freed up a considerable amount of cash, and it continues to position us well for the future and we expect this discipline to continue. Capital expenditures for '09 were \$368 million compared to \$425 million for '08. Weighted average shares outstanding for the quarter were 372 million. Our effective tax rate for Q4 in fiscal '09 was negative 13% and negative 3% respectively. The effective tax rate was driven primarily by the goodwill impairment charge, which is not deductible for tax purposes. Excluding the goodwill impairment, the effective tax rate for Q4 in fiscal '09 was 34% and 43% respectively.

While we continue our policy of not giving guidance for 2010, here are a few items for fiscal 2010 to help you with your financial models. We expect revenues for the fiscal year to be approximately \$27 billion. Weighted average shares will be approximately \$378 million -- 378 million shares. Debt interest expense is expected to be around \$320 million. Our interest expense expectation for 2010 has been impacted by a new accounting change. As a reminder, last September we issued \$458 million of 3.25% convertible senior notes due in 2013.

Due to a new accounting pronouncement, which we will adopt in Q1 2010, you must now discount the principal balance \$75 million at the beginning of fiscal 2010 and book it as equity due to the conversion feature of the notes. This amount is then amortized as interest expense over the remaining life of the notes. The impact of this change is that the effective interest rate of these convertible notes moves from 3.25% to just over 8.25% as a result of this amortization. Given the retrospective nature of this accounting pronouncement, it will effectively increase fiscal '09 and fiscal 2010 interest expense by approximately \$17 million each when reported beginning with our Q1 results. It's important to note, however, that this is a non-cash charge. I'll be happy to answer any questions about this later. I also recommend you review our 10-K, which was filed this morning.

Moving on, depreciation and amortization is expected to be around \$475 million. Capital spending will go up compared to fiscal '09. For the full year we expect to spend approximately \$600 million. The break down is among three major categories -- Approximately \$400 million is going to be spent on current core business capital spending, approximately \$150 million will be spent on post-acquisition capital spending mostly related to our Brazil and China acquisition and approximately \$50 million will be spent related to dynamic fuels. Our effective tax rate is expected to be approximately 38%.

As we all know, late fiscal 2008 and all of fiscal 2009 were marked by demand erosion, particularly in foodservice and export markets, higher unemployment and changes in consumer spending patterns. In many ways this was a historic period for our



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Company in terms of overall turnaround. In the past 15 months, we successfully raised capital twice to support foreign acquisitions, investments and to deal with major near term debt maturities. We completely restructured our bank debt to provide maximum operating flexibility. We generated nearly \$500 million in cash through strong working capital improvements. We improved our net debt to EBITDA ratio to less than three times from a peak of more than five times. We improved our liquidity to more than \$1.9 billion. We overcame a low stock price of \$4.40 per share in the face of the stock market and liquidity crisis. We handled more than \$250 million of earnings hits from grain and energy derivatives. We had our second best Prepared Foods segment year. We had our second best Pork segment year. We had our third best Beef segment year, and we initiated a turnaround in our Chicken segment particularly after a bad 2008 and first half of 2009 that we believe is poised to pay off in the years ahead.

So considering all this, I'm proud of what we have accomplished because it has been a lot and it positions us very well for the years ahead. We have a great team here that is getting better every day. I'm excited about Donnie and Jim's new responsibilities because they are great leaders with very complementary skills who I know will drive us to great levels of performance in the years ahead. I also want to especially thank Leland for all he did to help get us back on track and to restore our focus and confidence in what matters. Happy duck hunting season, Leland. You deserve the break and you're a true Tyson hero. And lastly, thank you, Tyson team members for all your hard work and sacrifice for our Company. Your efforts are so greatly appreciated. With that, I'll pass it over to Donnie for closing comments.

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**Donnie Smith** - *Tyson Foods - CEO, President*

Thanks, Dennis. Well, we're now about half way through the first quarter and I think 2010 is shaping up to be a pretty good year. We're off to a pretty good start with all four segments running ahead of their projections. I would remind you, however, our Q1 is typically not as strong as the preceding Q4, but the fundamentals are solid and we're steadily chipping away at the things we need to fix. We have our Beef, Pork, and Prepared Foods businesses where they should be and we're on our way to getting the Chicken business there too. By focusing on operational excellence, we will succeed. I'm really proud of the work everyone is doing here, and I believe our team members, our customers and our shareholders will see the benefits in 2010 and years to come.

Finally, before I open the call up for questions, I too want to take this opportunity to thank Leland for all he's done to help get our business back up on its feet. Leland has been a great mentor and a great coach to me through the years, and I'm very grateful for his influence on my life. So thanks, Leland, you're a true champion and we wish you the absolute best at round two of your retirement, and I look forward to seeing you around the Company when you stop by to check on things. Operator we're ready to take questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Diane Geissler.

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**Diane Geissler** - *Calyon Securities - Analyst*

Good morning.

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**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.



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**Diane Geissler** - *Calyon Securities - Analyst*

Congrats to the guys on their promotion.

**Donnie Smith** - *Tyson Foods - CEO, President*

Thank you.

**Diane Geissler** - *Calyon Securities - Analyst*

Just want to ask you a question here about the grain for 2010 and appreciate the increased disclosure but if I look at between the derivative contracts at a negative year-to-date or for 2009, \$250 million and the pick up that you saw in the fourth quarter, I guess what I'm seeing there is that you kind of move to cash prices in the fourth quarter so you started realizing the improvement on a year-over-year basis. Is that \$109 million that we saw in the fourth quarter is that a good run rate to use for 2010 in terms of what you're going to pick up year on year or how should we think about what the actual improvement in grain costs will be in the Poultry division in 2010?

**Donnie Smith** - *Tyson Foods - CEO, President*

It's going to be a little hard to predict what grain prices are going to do. I can tell you about our philosophy. We're going to play it pretty close to the vest on grain. If we have -- and we've said this before -- if we've got fixed price contracts and have the appropriate margin in those, we'll book grain against that, but other than that, we're going to stay on the market and play this thing pretty close to the vest. So you can look at the forward curve on the futures market and kind of predict what the grain prices are going to look like, and of course, I don't have any way to predict what the volatility will be through the year and that type thing.

**Diane Geissler** - *Calyon Securities - Analyst*

But even if we look at sort of what you've given us in terms of what you lost in the first part of 2009 because of your derivative book, that would suggest to me that its floor for the first half of 2010 you expect grain costs to be down in your P&L and it looks like it's going to be down pretty significantly.

**Donnie Smith** - *Tyson Foods - CEO, President*

Yes, that's true.

**Diane Geissler** - *Calyon Securities - Analyst*

Okay, great. Thank you.

**Operator**

Thank you. The next question is from Christine McCracken.

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

Good morning.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

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

Congratulations.

**Donnie Smith** - *Tyson Foods - CEO, President*

Thank you.

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

I wanted to dig a little further, I think Donnie, you mentioned that you expected to see I guess the same volumes I guess in Chicken or to increase production, I think that was kind of what you're hinting at by your comments on where inventories stood currently?

**Donnie Smith** - *Tyson Foods - CEO, President*

Yes, here is what it boils down to Christine. In 2009, in our Chicken segment, we took quite a bit of inventory out, and so if we just sold in 2010 what we sold in 2009, we're going to have to produce that much more, frankly just to be able to fill the orders, so that puts us in a position to do a much better job about running our plants full and getting our line efficiencies and the type things we've been looking for.

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

So it seems though that where breast meat prices are today it's not exceptionally supportive. Are you suggesting there's going to be a rebound in demand? Is that why you're so optimistic on rebuilding total volume?

**Donnie Smith** - *Tyson Foods - CEO, President*

Well, I look for things to react seasonally, as they should. I mean we'll rebound a bit after our Q1 is over, and then we think there's a pretty decent chance in three and four based on the Pork numbers and I'll let Jim comment on that a little bit for demand to increase there for Poultry, so I think that answers it. Jim, any comments?

**Jim Lochner** - *Tyson Foods - COO*

Just to add a little bit of color to this, that I was very surprised on the October export numbers in both Beef and Pork and the interest that we're starting to see, which is going to with decreasing production and increasing exports and probably in the case of Beef limiting imports because of the strength of the dollar, we'll see domestic availability of protein in those two species drop going forward unless we see a major trend change there. So that's one reason to look at the total supplies and look at the

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domestic availability shrinking throughout. And even though per capita consumption will come down, I think it will be favorable to push pricing.

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

Okay, I'll get back in queue. Thanks.

**Operator**

Thank you. The next question is from Ryan Oxenhendler.

**Ryan Oxenhendler** - *Analyst*

Hi, guys.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

**Ryan Oxenhendler** - *Analyst*

Jim, could you just give us a little more color around the outlook for Beef? It sounds like you have a pretty good outlook despite some weakening demand. What's demand outlook do you have for next year and can you continue to manage that spread in the face of weakening demand?

**Jim Lochner** - *Tyson Foods - COO*

Even though I think middle meats as a primary indicator are still going to be under pressure, what I just said a minute ago with the exports increasing and imports probably decreasing because of the strength of the dollar, I think we'll start to see the overall complex of revenue come up. And keep in mind that our supplies, because of the way the placements were this year, should be fairly strong and not decreasing. We might see a 1 to 2% decrease in the end of the fiscal year but we're going to have adequate supplies through the majority of the year in steers and heifers, so that's why I'm fairly comfortable that we can continue on the trend we've been on.

**Ryan Oxenhendler** - *Analyst*

And the outlook for exports, is that based off the weak US dollar, the exports look pretty good for the last couple weeks from the USDA in October. Are you guys starting to see that in your numbers?

**Jim Lochner** - *Tyson Foods - COO*

Yes.

**Ryan Oxenhendler** - *Analyst*

Okay, thank you very much.

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**Operator**

Thank you. The next question is from Ken Zaslow.

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

Good morning, everyone.

**Donnie Smith** - Tyson Foods - CEO, President

Good morning.

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

I'm kind of under the impression that Tyson was trying to improve the Chicken operations going back last year in terms of restructuring the Chicken operation to some extent to kind of be above the industry margins. The 1.2% margin seems somewhat surprisingly low, so I guess the question I have is what actions were taken that weren't really that successful and what actions are going to be taken forward to change the trajectory of the underlying Chicken margin for Tyson?

**Donnie Smith** - Tyson Foods - CEO, President

Okay, Ken, Q4, markets were down, grains were up and we had some international start up stuff that hit that, so let me shift to the go forward deal, which I think is kind of the real guts of your question. Let me give you an example of something that we did through this year, and I think you'll get a feel for how that's going to propel us on into 2010. I'm going to use an example from our small bird business, which we're very happy with that business and that's a sector we like. In April of this past year, we pinpointed and targeted some issues with that small bird business where we just weren't going to be as competitive as we needed to be. Some plants more than others but changes needed to be made.

Now I'm not going to go into a whole lot of details, but by June, we were getting started on the changes to that business and last week, by the way, we put the file piece equipment and the last pan on the project list so it's going to take another month or so, maybe a little bit more for us to realize that benefit of that work we were doing, but it's going to be a game changer for us in our small bird business. I don't really want to go into the exact dollar terms of what that's going to be, but there's other changes in other segments of our business that we're making as well -- very targeted approach, facility by facility that in due time are going to pay dividends. Some might not come as quick as from June to January, but just as assuredly they will make the improvements we've got targeted. Does that help?

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

A smidge. When will we see the benefits, when will we expect Tyson to be above industry margins, how is that? And I'm sorry to ask a second question.

**Donnie Smith** - Tyson Foods - CEO, President

Well, we think the back half of our year is going to be certainly an improvement over the first. I will tell you this. We are in Agristats and we've talked about those numbers a little bit. During our Q3 and our Q4, we were hanging around about average, give or take a little bit in operations profit per live pound for both of those quarters. Starting off in October/November we're



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doing better than that, and I've got to keep reminding you there's three holidays in this quarter, but once we get past that, we believe that our line efficiencies and labor efficiencies are going to improve in quarters two, three, and four.

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**Ken Zaslou** - *BMO Capital Markets - Analyst*

Great. I appreciate it.

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**Donnie Smith** - *Tyson Foods - CEO, President*

Thanks.

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**Operator**

Thank you. The next question is from Heather Jones.

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

Good morning.

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**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning, Heather.

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

Going back to the Chicken results because they were disappointing relative to my estimate as well, was wondering if you could give us a specific example of these issues you mentioned or a dollar amount around the start up costs in international, the volatility and when those showed up and when they're going to be resolved?

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**Donnie Smith** - *Tyson Foods - CEO, President*

Okay. I'll give you a couple of things. We had had in our business an issue with, frankly, some dried broth powder -- and I'm getting pretty specific here. I don't want to make a habit of doing this on the call. We were looking for avenues during Q3 to be able to find an appropriate home for that. It had been in inventory for quite some time and, frankly, just didn't work out, so in Q4 we wrote that off, and we had a few things like that. So that's an example, but more specifically, during Q4, we were starting up about 22 cone lines in our small bird business and going to more hand deboning. It takes a while for you to hire a workforce and get them trained and get them up to speed, and I tell you, in Q4 we had a very disappointing boneless skinless breast to live yield in that quarter, not just in the small bird group, but in other groups as well. It's those type things that we're aggressively working on improving now seeing good progress, and those are the type of things that will carry us through the rest of 2010.

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

So when you said that in Q3 and Q4 you were close to average in Agristats, are you separating out these disappointing yields and this dry broth issue to get to that average performance?

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**Donnie Smith** - *Tyson Foods - CEO, President*

No, ma'am. That's straight up, and let me let Rick comment a little bit on this international deal because that was a pretty good piece of it too.

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

Okay, thanks.

**Rick Greubel** - *Tyson Foods - Group VP, International*

Yes, Heather. Rick here. In Brazil, we had a number of things go on there that were negative to the business. One was that for the year, the real has strengthened about 35% versus the US dollar, and in Q4 alone it was over 12% of appreciation, and at the same time, the export markets, which are about half of our business -- of our production -- is exported out of Brazil. They have not come back, and I'm speaking specifically here about boneless skinless breast meat going to Europe or boneless thigh meat going to Japan, so traditionally Brazil has been able as an industry to do a real good job of raising prices and dollars whenever the real appreciated, and we did not see that throughout Q4. Things are a little better today than they were in October, but they still are not where they need to be. Additionally, we had about five or six new cone lines going in Brazil as we continue to expand our production, and we are still operating at less than full capacity there. So when you're producing at less than full capacity, your costs are rising because of the currency and the export markets haven't returned, you got a number of challenges that you're facing, and that was a big piece of it.

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

So we should expect better domestic Chicken results going forward but it sounds like the international piece is going to be a drag for a while?

**Rick Greubel** - *Tyson Foods - Group VP, International*

Well, I think what we got to see in international is a couple things. One we've got to get our capacities up so we're taking care of those variances, and I know we're going to get better in our production as our people get experience on those lines, and number two is we need to see the pricing improve relative to the currency. In Brazil we don't see anything that indicates that the real is going to weaken, so it really means we've got to see demand come back in those export markets.

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

Okay, thank you.

**Operator**

Thank you. The next question is from Robert Moskow.

**Robert Moskow** - *Credit Suisse - Analyst*

Hi, thanks. To get your, I think your comment was that you have to produce this year what you took out of inventory last year in Chicken. Does that mean that your production would be up 5% this year?

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**Donnie Smith** - *Tyson Foods - CEO, President*

No, it does not. It wouldn't be five.

**Robert Moskow** - *Credit Suisse - Analyst*

Okay. And just a clarification, you're talking about 22 cone lines in small bird. Is that part of the small bird restructuring that you did or are you increasing small bird production as a result of these 22 cone lines or just shifting things around?

**Donnie Smith** - *Tyson Foods - CEO, President*

It's part of the restructuring, and it was part of the change in the mix to be able to get a mix that would be profitable out of those plants.

**Robert Moskow** - *Credit Suisse - Analyst*

Okay. And maybe Rick, you could talk a little bit more about international. Tyson has never had a lot of experience operating in emerging markets. This is really their first foray of significance. Maybe just give us a little more clarity here. Will these results be profitable in the next year or do you really need exports to improve and you really need the currency to be better in order for them to be profitable and can they be profitable even if those elements are still weak?

**Rick Greubel** - *Tyson Foods - Group VP, International*

Well, I think they can be profitable if we recover -- that we've got to fill up the production and eliminate those variances, and that's the decision that we wrestle with every day is as long as these export markets continue to be weak and the currency continues to be strong, how fast do you want to expand your production, and I'm not going to go into any more detail on that, but I wanted to give you a feel for the decision that we have in front of us. Mexico has been another challenge. It's in a severe recession right now. GDP is down 7% for the year. Unemployment is 13%, demand has softened significantly, exports from the US to Mexico were up putting more pressure, so you're in an oversupply situation even though the industry has cut back production about 4%.

Operationally, we are a lot better in Mexico than we were a year ago, but it's, when you're in an oversupply situation due to reduced demand, it is a difficult market situation. And China is better. China, we don't have a demand issue. We are increasing production there. We've got strong GDP growth, and it looks like the foodservice industry is just chugging along well, and we are a big supplier into that market segment. So I would say we feel a lot better about China than I would say Mexico and Brazil right now. Okay?

**Robert Moskow** - *Credit Suisse - Analyst*

I haven't read the proxy yet but just one last question for Donnie. I remember Dick Bond had a big incentive clause based on operating income in any given year. Is that going to be a major piece of your incentive, Donnie?

**Donnie Smith** - *Tyson Foods - CEO, President*

Actually, the Comp Committee of the Board is working on my incentive packaging and that's about all I, I don't want to sound like Forrest Gump here, but that's really all about I have to say about that right now.

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**Robert Moskow** - *Credit Suisse - Analyst*

Well, we're all rooting for you. But we'll wait until the proxy comes out. Thank you very much.

**Donnie Smith** - *Tyson Foods - CEO, President*

Thanks.

**Operator**

Thank you. The next question is from Christina McGlone.

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

Good morning.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

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

Donnie, I was wondering just following on Christine McCracken's line of questioning, it looks like fresh meat is starting to stabilize and leg quarter demand has picked up so I'm curious, is demand recovering or do you see any kind of temporary increase because of trying to get in under the Russian quota or a switch to boneless wings and you noted an increase in production or that you want to fill up your plants. I'm just curious what is your utilization running at and what's the target?

**Donnie Smith** - *Tyson Foods - CEO, President*

Great series of questions there. I'll try to remember them all. As far as demand goes, here is what we see. Overall, and I'm going to forward look into 2010, it looks like overall protein suppliers domestically are going to be down. Pullet placements have remained stable with the eggs set/chicks placed numbers where they are, it looks like to us that this thing is not going to get too carried away. Demand is not great, but 2010 versus 2009 is not going to be near as bad as 2009 was versus 2008, so we've got in front of us a decent manageable balance.

Now, with what we've done to take the inventory out of the system, it gives us the opportunity to be able to produce more without necessarily selling more. Now, I'm not saying that we're not going to grow sales because with our run rate, we certainly will. We want to help grow our customer's business. That's always our focus, but we don't have to sell more in 2010 to produce more in 2010, because we've taken all this product out of inventory. So I think in the front end of our plants, we'll be bumping up towards a very high 90s utilization number. We've still got lots of latent capacity in our business in the FP side, which is not a bad story because that means we can continue to grow our business without a lot of capital requirements, so hope that answered everything if I caught it right.

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

Thank you, the only thing was just about boneless picking up and export demand picking up?



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**Donnie Smith** - *Tyson Foods - CEO, President*

I tell you, we have seen boneless prices increase \$0.04 a pound the week before Thanksgiving. I don't remember that. So I don't know what that portends for the future and we'll take this thing as it comes, but if we're right on what we think about the overall domestic supplies with what Jim says driven by the export in Beef and Pork, we feel like we've got a pretty good shot in 2010 of seeing some pretty decent pricing, but we'll take that as it comes. Our focus right now is on operational excellence, and our folks are focused on getting our cost structure where it needs to be.

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

Okay, thank you.

**Operator**

Thank you. The next question is from Ann Gurkin.

**Ann Gurkin** - *Davenport and Company - Analyst*

Good morning.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

**Ann Gurkin** - *Davenport and Company - Analyst*

I wanted to ask you about Prepared Foods. Can you still stay within the targeted 4 to 6% operating margin range for all of 2010 even if input prices go up?

**Donnie Smith** - *Tyson Foods - CEO, President*

We can. Yes, ma'am.

**Ann Gurkin** - *Davenport and Company - Analyst*

And what percentage of your business is now shorter term in contract?

**Donnie Smith** - *Tyson Foods - CEO, President*

Good question. If we go back a couple years ago, something short of 50% of our business, no, wait a minute. Excuse me, are you talking about Chicken or Prepared?

**Ann Gurkin** - *Davenport and Company - Analyst*

Prepared Foods.



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**Donnie Smith** - *Tyson Foods - CEO, President*

In Prepared we have very, very little fixed price contracts. Most everything we've got is on a formula or a matrix, so very little fixed price.

**Ann Gurkin** - *Davenport and Company - Analyst*

That's great. Thank you.

**Operator**

The next question is from Farha Aslam.

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

Hi, good morning.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

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

Congratulations first of all.

**Donnie Smith** - *Tyson Foods - CEO, President*

Thank you.

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

And when you look at your Chicken restructuring, Donnie, do you have numbers you could put how much you're targeting savings in fiscal 2010 and the timing of when those savings will come?

**Donnie Smith** - *Tyson Foods - CEO, President*

No, Farha, I really don't want to get into the details of that. I think it will -- certainly it's going to play itself out in our numbers because for the first time, I can actually see our plan execution in our results, so as we talked about and where we see 2010 going, that restructuring and the things we're doing around operational excellence will be what gets us there.

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

And right now your Chicken division is kind of average for the industry and a lot of the industry is right now running in the red so can we expect sort of fiscal first quarter earnings for the Chicken division to be in the red and kind of progress to positive seasonality as the year flows?

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**Donnie Smith** - *Tyson Foods - CEO, President*

No, I don't think you should. I don't want to get into giving guidance and that kind of thing but we're off to a very good start. We're ahead of plan. The first six or seven weeks of our quarter is off to a good start. I don't see us being negative, no.

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

That's very helpful, thank you.

**Donnie Smith** - *Tyson Foods - CEO, President*

Thanks.

**Operator**

Thank you. The next question is from Akshay Jagdale.

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Good morning, congratulations on the appointments. Just one quick one on Chicken. In terms of, again I think a lot of people asked about your performance relative to the industry which was much weaker from what we see. Sequentially, I think you're the only Chicken Company that we follow that saw a major decline in the September quarter from a margin standpoint. Can you just help us understand that? I mean, what in your business other than international would cause a sequential decline in margins?

**Donnie Smith** - *Tyson Foods - CEO, President*

Okay, so we talked about the international piece a bit. Markets were down. Our grain costs were up. There were several one off things that we did, whether it's like the dry broth powder deal I mentioned, or there's a few other type things like that that added up in the quarter. Those things plus the issues we have around during our restructuring, it just takes a little time for the operational improvements to happen while you're staffing lines and doing those type things, those were the things that caused the dip from three to four.

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Okay, and just one for Jim. Jim, if you look at your Pork and Prepared Foods and you look at where futures are for hogs today I think they're pointing to about \$8 increase on a live basis, I think for next year, can you just comment on what you think the futures imply? Do you believe in that? Is it too optimistic? You've said in your prepared remarks that you think there's going to be enough supplies and the supply reduction will accelerate in the back half but it seems like from everything you've said you still expect utilization levels to be pretty high, so maybe you could just talk about utilization levels and give us a sense of whether you think futures are too optimistic or not, that would be great.

**Jim Lochner** - *Tyson Foods - COO*

The futures prices should reflect total revenue increases, which I am optimistic will increase basis the comments we've made, particularly with stimulation of exports and a decreasing supply, and even through October it appeared that demand or domestic

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pricing -- or demand for domestic Pork increased, and then if you really roll back and look, we came off the peak year of '08, and '09 was down slightly, and we'll still be above '07 and that was -- we haven't materially changed the structure of the industry compared to '07 -- so that's the basis behind my optimism and being able to manage through the margin with increasing revenues and the supplies not decreasing dramatically.

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

**Jim Lochner** - *Tyson Foods - COO*

You're welcome.

**Operator**

Thank you. The next question is from Ken Goldman.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

**Ken Goldman** - *Goldman Sachs - Analyst*

Good morning guys. My question is on your statement that you believe Chicken demand will go up in the back half of the year. You're not the only Company out there to be talking about an improved back half of, I know your fiscal 2010 is different than calendar but it seems like the back half is going to be for a lot of companies this wonderful recovery period and I just don't quite understand where the data is that would lead people to think that the consumer is going to suddenly be better then so I'm not questioning what you're saying. I'm just hoping to get some kind of clarity on where that statement is coming from and maybe some confidence in some data behind that?

**Donnie Smith** - *Tyson Foods - CEO, President*

I can tell you what's behind it. Number one it's seasonal, right? I mean three and four are always better than one and two in the Chicken side of the deal. Number two, we think there's a chance for the economy to improve or whatever. Now, we don't necessarily have to have that, because we believe there's going to be a limited supply of overall protein in the US in the back half of the year. So if the economics -- if there is no economic recovery, I don't think that allays our optimism about Chicken demand a bit, and I don't think we're talking about an overwhelming demand. If you look at the USDAs number, they've got Chicken production up about 1% in 2010. That seems reasonable to me, so really, Ken, that's kind of what we're talking about.

**Ken Goldman** - *Goldman Sachs - Analyst*

You've forgotten more about Chicken more than I'll ever know but 1% seems light to me, given what you guys are talking about today and who knows what Pilgrim's Pride is going to be but they are going to be recapitalized and going to have a very different outlook and different take, and then a year from now you'll have I know it's not next year but a year from now you'll have Sanders and Farms coming online with Kingston, so 1% seems fairly conservative to me. Does it not seem conservative to you?



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**Donnie Smith** - *Tyson Foods - CEO, President*

Ken, I don't know how the industry is going to respond to all the things that will come down the road between now and then, but I can tell you, we have got ourselves in a position that we've been wanting to be in for a long time to where, as we grow our business with our customers, we're in the position to either produce it or buy it, depending on which is more opportunistic for us. I like that position. So if demand comes into the Chicken segment from reducing overall protein, seasonal whatever, we're positioned well to take advantage of it, and I also probably ought to let Rick have a comment too about this.

**Rick Greubel** - *Tyson Foods - Group VP, International*

Yes, hi, Ken. Rick here. There's about at least -- we track about 30 years worth of data that clearly shows that protein consumption and GDP are highly correlated. This year's global GDP growth is slightly positive, driven mainly by China and India, with the developing world all being negative. Okay. Most of the forecast for next year is that the developing world goes positive, maybe not anything super strong but positive, and the developing world probably continues to be relatively strong. Chicken also is your most economical protein and the most accessible, so we think based on better GDP growth and the economics around Chicken affordability, we're going to see stronger global demand, and I think most of the people that look at this are all predicting that as well, okay?

**Ken Goldman** - *Goldman Sachs - Analyst*

Okay, thanks very much.

**Operator**

Thank you. The next question is from Vincent Andrews.

**Vincent Andrews** - *Morgan Stanley - Analyst*

Thank you, good morning, everyone.

**Donnie Smith** - *Tyson Foods - CEO, President*

Good morning.

**Vincent Andrews** - *Morgan Stanley - Analyst*

My question would just have to do with trying to better understand let's assume the economy does recover next year and Chicken demand does increase. In your plan and in the conversation that you had with us this morning, in that scenario, do you also assume that oil and grain price and everything else are going to move up with that demand or are you expecting status quo of futures curves in that regard?

**Donnie Smith** - *Tyson Foods - CEO, President*

Basically what we do is we look at the forward curves in the futures markets, and of course we know what the basis in freight is doing as well, and we can plot daily what our forward grain cost position is going to be so we're assuming the forward grain cost based on the forward curve of the futures markets today.

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**Vincent Andrews** - Morgan Stanley - Analyst

Okay, so in other words this economic recovery that will come in the second half of next year is already baked into the corn futures curve but is not baked into Chicken prices right now? Is that right?

**Jim Lochner** - Tyson Foods - COO

I would think you could draw that scenario. I think the futures curves on the base commodities do have that built in, and I think the lag will be the things we've been talking about that we're starting to see this interest in export disappearance, which will start to limit domestic availability of all proteins in addition to the production declines in Pork, and then followed by Beef, and so that's why the optimism of being able to push the price on the reduced overall supply is there, and the input costs now we think have that baked into it at this point in time.

**Rick Greubel** - Tyson Foods - Group VP, International

And the other comment would be that grain prices in the future are not just dependent on economic recovery. They also take into account ending stocks and planting intentions.

**Vincent Andrews** - Morgan Stanley - Analyst

Sure. Okay, I'll leave it there. Thanks so much.

**Ruth Ann Wisener** - Tyson Foods - VP, IR, Asst. Sec.

Operator, I think we have time for one more question.

**Operator**

Okay, thank you so much. Our final question will come from Christine McCracken.

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

Sorry, thanks for taking the follow-up. I just had one follow-up question on a comment made there by Jim. I think you said that you expected fairly tight cattle supplies but for overall supplies being made up by heavier weights and I guess I'm a little bit surprised by that given some of the things that you guys have been working on to move towards smaller fed cattle and then secondly, we've had a really sharp drop off here in the last three, four weeks in weights and I was wondering how that lines up with your comments relative to weights?

**Jim Lochner** - Tyson Foods - COO

Good question, because if we think in terms that the cow herd is declining and the dairy herd is declining, so we push placements back later into the year, heavier placement weights, and that gives us a more favorable supply through the majority of our fiscal '10. In my rationale, even though the weights have dramatically dropped off in the last two weeks down to the five year average, is the placement weight component and the feed cost and the different management to maximize the efficiency of gain that I think will keep the carcass weights. And ideally I'd love the carcass weights to stay where they've been and the standard



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deviation of the weight variance to drop. That's the best overall scenario for us and the rest of the Beef industry. But I don't think we're going to see a major trend change down to lighter weight carcasses.

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

I'll leave it there. We can follow-up later.

**Ruth Ann Wisener** - *Tyson Foods - VP, IR, Asst. Sec.*

Okay, thank you very much for your interest in the Company and attending the call today and we look forward to speaking with you next quarter.

**Operator**

Thank you for participating on today's conference. The conference has concluded. You may disconnect at this time.

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