

TYSON FOODS INC

FORM 10-Q (Quarterly Report)

Filed 08/09/10 for the Period Ending 07/03/10

| | |
|-------------|---|
| Address | 2200 DON TYSON PARKWAY SPRINGDALE, AR 72762-6999 |
| Telephone | 479-290-4000 |
| CIK | 0000100493 |
| Symbol | TSN |
| SIC Code | 2015 - Poultry Slaughtering and Processing |
| Industry | Food Processing |
| Sector | Consumer/Non-Cyclical |
| Fiscal Year | 09/30 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 3, 2010

OR

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

For the transition period from _____ to _____

001-14704
(Commission File Number)

TYSON FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

71-0225165
(I.R.S. Employer
Identification No.)

2200 Don Tyson Parkway, Springdale, Arkansas
(Address of principal executive offices)

72762-6999
(Zip Code)

(479) 290-4000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 3, 2010.

| <u>Class</u> | <u>Outstanding Shares</u> |
|--|---------------------------|
| Class A Common Stock, \$0.10 Par Value (Class A stock) | 307,431,269 |
| Class B Common Stock, \$0.10 Par Value (Class B stock) | 70,021,155 |

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------------|-------------------|-----------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Sales | \$ 7,438 | \$ 6,662 | \$ 20,989 | \$ 19,490 |
| Cost of Sales | 6,686 | 6,192 | 19,144 | 18,749 |
| Gross Profit | 752 | 470 | 1,845 | 741 |
| Selling, General and Administrative | 245 | 192 | 680 | 617 |
| Other Charges | 0 | 2 | 0 | 17 |
| Operating Income | 507 | 276 | 1,165 | 107 |
| Other (Income) Expense: | | | | |
| Interest income | (4) | (5) | (11) | (14) |
| Interest expense | 102 | 92 | 282 | 237 |
| Other, net | 14 | (3) | 14 | 18 |
| Total Other Expense | 112 | 84 | 285 | 241 |
| Income (Loss) from Continuing Operations before Income Taxes | 395 | 192 | 880 | (134) |
| Income Tax Expense (Benefit) | 153 | 69 | 323 | (42) |
| Income (Loss) from Continuing Operations | 242 | 123 | 557 | (92) |
| Income (Loss) from Discontinued Operation, net of tax | 0 | 7 | 0 | (1) |
| Net Income (Loss) | 242 | 130 | 557 | (93) |
| Less: Net Loss Attributable to Noncontrolling Interest | (6) | (1) | (10) | (3) |
| Net Income (Loss) Attributable to Tyson | <u>\$ 248</u> | <u>\$ 131</u> | <u>\$ 567</u> | <u>\$ (90)</u> |
| Weighted Average Shares Outstanding: | | | | |
| Class A Basic | 304 | 302 | 303 | 303 |
| Class B Basic | 70 | 70 | 70 | 70 |
| Diluted | 382 | 378 | 379 | 373 |
| Earnings (Loss) Per Share from Continuing Operations Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.68 | \$ 0.34 | \$ 1.55 | \$ (0.24) |
| Class B Basic | \$ 0.61 | \$ 0.30 | \$ 1.39 | \$ (0.22) |
| Diluted | \$ 0.65 | \$ 0.33 | \$ 1.49 | \$ (0.24) |
| Earnings (Loss) Per Share from Discontinued Operation Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.00 | \$ 0.02 | \$ 0.00 | \$ 0.00 |
| Class B Basic | \$ 0.00 | \$ 0.02 | \$ 0.00 | \$ 0.00 |
| Diluted | \$ 0.00 | \$ 0.02 | \$ 0.00 | \$ 0.00 |
| Net Income (Loss) Per Share Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.68 | \$ 0.36 | \$ 1.55 | \$ (0.24) |
| Class B Basic | \$ 0.61 | \$ 0.32 | \$ 1.39 | \$ (0.22) |
| Diluted | \$ 0.65 | \$ 0.35 | \$ 1.49 | \$ (0.24) |
| Cash Dividends Per Share: | | | | |
| Class A | \$ 0.040 | \$ 0.040 | \$ 0.120 | \$ 0.120 |
| Class B | <u>\$ 0.036</u> | <u>\$ 0.036</u> | <u>\$ 0.108</u> | <u>\$ 0.108</u> |

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions, except share and per share data)
(Unaudited)

| | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|---|---------------------|------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 834 | \$ 1,004 |
| Restricted cash | 0 | 140 |
| Accounts receivable, net | 1,229 | 1,100 |
| Inventories, net | 2,132 | 2,009 |
| Other current assets | 169 | 122 |
| Total Current Assets | 4,364 | 4,375 |
| Restricted Cash | 0 | 43 |
| Net Property, Plant and Equipment | 3,631 | 3,576 |
| Goodwill | 1,916 | 1,917 |
| Intangible Assets | 168 | 187 |
| Other Assets | 388 | 497 |
| Total Assets | <u>\$ 10,467</u> | <u>\$ 10,595</u> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current debt | \$ 93 | \$ 219 |
| Accounts payable | 996 | 1,013 |
| Other current liabilities | 1,073 | 761 |
| Total Current Liabilities | 2,162 | 1,993 |
| Long-Term Debt | 2,489 | 3,258 |
| Deferred Income Taxes | 284 | 309 |
| Other Liabilities | 513 | 539 |
| Redeemable Noncontrolling Interest | 63 | 65 |
| Shareholders' Equity: | | |
| Common stock (\$0.10 par value): | | |
| Class A-authorized 900 million shares, issued 322 million shares | 32 | 32 |
| Convertible Class B-authorized 900 million shares, issued 70 million shares | 7 | 7 |
| Capital in excess of par value | 2,232 | 2,236 |
| Retained earnings | 2,916 | 2,399 |
| Accumulated other comprehensive loss | (37) | (34) |
| Treasury stock, at cost – 15 million shares at July 3, 2010, and 16 million shares at October 3, 2009 | (226) | (242) |
| Total Tyson Shareholders' Equity | 4,924 | 4,398 |
| Noncontrolling Interest | 32 | 33 |
| Total Shareholders' Equity | 4,956 | 4,431 |
| Total Liabilities and Shareholders' Equity | <u>\$ 10,467</u> | <u>\$ 10,595</u> |

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

| | Nine Months Ended | |
|---|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 |
| Cash Flows From Operating Activities: | | |
| Net income (loss) | \$ 557 | \$ (93) |
| Depreciation and amortization | 372 | 383 |
| Deferred income taxes | (4) | (26) |
| Other, net | 116 | 97 |
| Net changes in working capital | 67 | 323 |
| Cash Provided by Operating Activities | 1,108 | 684 |
| Cash Flows From Investing Activities: | | |
| Additions to property, plant and equipment | (404) | (248) |
| Change in restricted cash to be used for investing activities | 43 | (60) |
| Proceeds from sale of marketable securities | 34 | 49 |
| Purchases of marketable securities | (39) | (34) |
| Proceeds from sale of discontinued operation | 0 | 75 |
| Acquisitions, net of cash acquired | 0 | (71) |
| Other, net | 2 | (9) |
| Cash Used for Investing Activities | (364) | (298) |
| Cash Flows From Financing Activities: | | |
| Payments on debt | (993) | (292) |
| Proceeds from borrowings of debt | 17 | 851 |
| Debt issuance costs | 0 | (60) |
| Change in restricted cash to be used for financing activities | 140 | (140) |
| Purchases of treasury shares | (42) | (11) |
| Dividends | (44) | (44) |
| Change in negative book cash balances | (25) | (119) |
| Other, net | 32 | 9 |
| Cash Provided by (Used for) Financing Activities | (915) | 194 |
| Effect of Exchange Rate Change on Cash | 1 | 15 |
| Increase (Decrease) in Cash and Cash Equivalents | (170) | 595 |
| Cash and Cash Equivalents at Beginning of Year | 1,004 | 250 |
| Cash and Cash Equivalents at End of Period | \$ 834 | \$ 845 |

See accompanying Notes to Consolidated Condensed Financial Statements.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated condensed financial statements have been prepared by Tyson Foods, Inc. (“Tyson,” “the Company,” “we,” “us” or “our”). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended October 3, 2009. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of July 3, 2010, the results of operations for the three and nine months ended July 3, 2010, and June 27, 2009, and cash flows for the nine months ended July 3, 2010, and June 27, 2009. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

CONSOLIDATION

The consolidated condensed financial statements include the accounts of all wholly-owned subsidiaries, as well as majority-owned subsidiaries for which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

We have an investment in a joint venture, Dynamic Fuels LLC (Dynamic Fuels), in which we have a 50 percent ownership interest. Dynamic Fuels qualifies as a variable interest entity. We consolidate Dynamic Fuels since we are the primary beneficiary.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued guidance for using fair value to measure assets and liabilities. This guidance also requires expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. This guidance applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. At the beginning of fiscal 2009, we partially adopted this standard, as allowed, which delayed the effective date for nonfinancial assets and liabilities. As of the beginning of fiscal 2009, we applied these provisions to our financial instruments and the impact was not material. We were required to apply fair value measurements to our nonfinancial assets and liabilities at the beginning of fiscal 2010. The adoption did not have a significant impact on our consolidated condensed financial statements.

In December 2007, the FASB issued guidance establishing principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we adopted this guidance at the beginning of fiscal 2010. The initial adoption did not have a significant impact on our consolidated condensed financial statements.

In December 2007, the FASB issued guidance to establish accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and may be reported as equity in the consolidated financial statements, rather than in the liability or mezzanine section between liabilities and equity. This guidance also requires consolidated net income be reported at amounts that include the net income attributable to both Tyson (the parent) and the noncontrolling interest. We adopted the presentation and disclosure requirements retrospectively at the beginning of fiscal 2010. Accordingly, “attributable to Tyson” refers to operating results exclusive of any noncontrolling interest. In conjunction with this adoption, we also adopted guidance applicable for all noncontrolling interests in which we are or may be required to repurchase an interest in a consolidated subsidiary from the noncontrolling interest holder under a put option or other contractual redemption requirement. Because we have certain redeemable noncontrolling interests, noncontrolling interests are presented in both the equity section and the mezzanine section of the balance sheet between liabilities and equity.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

In May 2008, the FASB issued guidance which specifies issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The amount allocated to the equity component represents a discount to the debt, which is amortized into interest expense using the effective interest method over the life of the debt. We adopted this guidance in the first quarter of fiscal 2010 and applied it retrospectively. Upon retrospective adoption, our effective interest rate on our 3.25% Convertible Senior Notes due 2013 was determined to be 8.26%, which resulted in the recognition of a \$92 million discount to these notes with the offsetting after tax amount of \$56 million recorded to capital in excess of par value. This discount will be accreted over the five-year term of the convertible notes at the effective interest rate. The impact to our previously reported fiscal 2008 interest expense was not significant, while the impact increased fiscal 2009 non-cash interest expense by \$17 million.

The following table presents the effects of the retrospective application of new accounting guidance on our consolidated condensed financial statements (in millions, except per share data):

| | Previously Reported | Adjustments: Convertible Debt | Adjustments: Noncontrolling Interest | As Adjusted |
|---|------------------------|-------------------------------------|--|----------------|
| October 3, 2009 Balance Sheet: | | | | |
| Long-Term Debt | \$ 3,333 | \$ (75) | \$ — | \$ 3,258 |
| Deferred Income Taxes | 280 | 29 | — | 309 |
| Minority Interest | 98 | — | (98) | — |
| Redeemable Noncontrolling Interest | — | — | 65 | 65 |
| Capital in Excess of Par Value | 2,180 | 56 | — | 2,236 |
| Retained Earnings | 2,409 | (10) | — | 2,399 |
| Total Tyson Shareholders' Equity | 4,352 | 46 | — | 4,398 |
| Noncontrolling Interest | — | — | 33 | 33 |
| Total Shareholders' Equity | 4,352 | 46 | 33 | 4,431 |
| Three Months Ended June 27, 2009 – Income Statement: | | | | |
| Interest Expense | \$ 88 | \$ 4 | \$ — | \$ 92 |
| Income (Loss) from Continuing Operations before Income Taxes | 196 | (4) | — | 192 |
| Income Tax Expense (Benefit) | 70 | (1) | — | 69 |
| Income (Loss) from Continuing Operations | 126 | (3) | — | 123 |
| Minority Interest | (1) | — | 1 | — |
| Net Income (Loss) | 134 | (3) | (1) | 130 |
| Less: Net Loss Attributable to Noncontrolling Interest | — | — | (1) | (1) |
| Net Income (Loss) Attributable to Tyson | — | — | — | 131 |
| Earnings (Loss) Per Share from Continuing Operations | | | | |
| Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.35 | \$ (0.01) | \$ — | \$ 0.34 |
| Class B Basic | \$ 0.31 | \$ (0.01) | \$ — | \$ 0.30 |
| Diluted | \$ 0.33 | \$ (0.00) | \$ — | \$ 0.33 |
| Net Income (Loss) Per Share Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.37 | \$ (0.01) | \$ — | \$ 0.36 |
| Class B Basic | \$ 0.33 | \$ (0.01) | \$ — | \$ 0.32 |
| Diluted | \$ 0.35 | \$ (0.00) | \$ — | \$ 0.35 |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

| | Previously Reported | Adjustments: Convertible Debt | Adjustments: Noncontrolling Interest | As Adjusted |
|---|------------------------|-------------------------------------|--|----------------|
| Nine Months Ended June 27, 2009 – Income Statement: | | | | |
| Interest Expense | \$ 225 | \$ 12 | \$ — | \$ 237 |
| Income (Loss) from Continuing Operations before Income Taxes | (122) | (12) | — | (134) |
| Income Tax Expense (Benefit) | (38) | (4) | — | (42) |
| Income (Loss) from Continuing Operations | (84) | (8) | — | (92) |
| Minority Interest | (3) | — | 3 | — |
| Net Income (Loss) | (82) | (8) | (3) | (93) |
| Less: Net Loss Attributable to Noncontrolling Interest | — | — | (3) | (3) |
| Net Income (Loss) Attributable to Tyson | — | — | — | (90) |
| Earnings (Loss) Per Share from Continuing Operations | | | | |
| Attributable to Tyson: | | | | |
| Class A Basic | \$ (0.22) | \$ (0.02) | \$ — | \$ (0.24) |
| Class B Basic | \$ (0.20) | \$ (0.02) | \$ — | \$ (0.22) |
| Diluted | \$ (0.22) | \$ (0.02) | \$ — | \$ (0.24) |
| Net Income (Loss) Per Share Attributable to Tyson: | | | | |
| Class A Basic | \$ (0.22) | \$ (0.02) | \$ — | \$ (0.24) |
| Class B Basic | \$ (0.20) | \$ (0.02) | \$ — | \$ (0.22) |
| Diluted | \$ (0.22) | \$ (0.02) | \$ — | \$ (0.24) |

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued guidance requiring additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. This guidance is effective for fiscal years ending after December 15, 2009, with early adoption permitted. We will adopt the disclosure requirements beginning with our fiscal 2010 annual report.

In June 2009, the FASB issued guidance removing the concept of a qualifying special-purpose entity (QSPE). This guidance also clarifies the requirements for isolation and limitations on portions of financial assets eligible for sale accounting. This guidance is effective for fiscal years beginning after November 15, 2009. Accordingly, we will adopt this guidance at the beginning of fiscal year 2011. We are in the process of evaluating the potential impacts of such adoption.

In June 2009 and December 2009, the FASB issued guidance requiring an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This guidance requires an ongoing assessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This guidance is effective for fiscal years beginning after November 15, 2009. Accordingly, we will adopt this guidance at the beginning of fiscal year 2011. We are in the process of evaluating the potential impacts of such adoption.

NOTE 2: ACQUISITIONS

In August 2009, we completed the establishment of related joint ventures in China referred to as Shandong Tyson Xinchang Foods. The aggregate purchase price for our 60% equity interest was \$21 million, which excluded \$93 million of additional cash transferred to the joint venture for future capital needs. The preliminary purchase price included \$29 million allocated to Intangible Assets and \$19 million allocated to Goodwill, as well as the assumption of \$76 million of Current and Long-Term Debt.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 3: DISCONTINUED OPERATION

On March 13, 2009, we completed the sale of the beef processing, cattle feed yard and fertilizer assets of three of our Alberta, Canada subsidiaries (collectively, Lakeside), which were part of our Beef segment, and related inventories for total consideration of \$145 million, based on exchange rates then in effect. This included (a) cash received at closing of \$43 million, (b) \$78 million of collateralized notes receivable from either XL Foods or an affiliated entity to be collected throughout the two years following closing, and (c) \$24 million of XL Foods Preferred Stock to be redeemed over five years.

We recorded a pretax loss on sale of Lakeside of \$10 million in the nine months ended June 27, 2009, which included an allocation of beef reporting unit goodwill of \$59 million and cumulative currency translation adjustment gains of \$37 million.

The following is a summary of Lakeside’s operating results (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Sales | \$ — | \$ — | \$ — | \$ 461 |
| Pretax income from discontinued operation | \$ — | \$ 9 | \$ — | \$ 20 |
| Loss on sale of discontinued operation | — | — | — | (10) |
| Income tax expense | — | 2 | — | 11 |
| Income (loss) from discontinued operation | <u>\$ —</u> | <u>\$ 7</u> | <u>\$ —</u> | <u>\$ (1)</u> |

NOTE 4: OTHER INCOME AND CHARGES

During the third quarter of fiscal 2010, we recognized \$38 million of insurance proceeds received related to losses incurred from Hurricane Katrina in 2005. These proceeds are reflected in the Chicken segment’s Operating Income and included in the Consolidated Condensed Statements of Income in Cost of Sales.

During the third quarter of fiscal 2010, we recorded a \$12 million impairment charge related to an equity method investment. This charge is included in the Consolidated Condensed Statements of Income in Other, net.

On March 27, 2009, we announced the decision to close our Ponca City, Oklahoma, processed meats plant. The plant ceased operation in August 2009. The closing resulted in the elimination of approximately 600 jobs. During the second quarter of fiscal 2009, we recorded charges of \$15 million, which included \$14 million for estimated impairment charges and \$1 million of employee termination benefits. The charges are reflected in the Prepared Foods segment’s Operating Income and included in the Consolidated Condensed Statements of Income in Other Charges.

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

Our business operations give rise to certain market risk exposures mostly due to changes in commodity prices, foreign currency exchange rates and interest rates. We manage a portion of these risks through the use of derivative financial instruments, primarily futures and options, to reduce our exposure to commodity price risk, foreign currency risk and interest rate risk. Forward contracts on various commodities, including grains, livestock and energy, are primarily entered into to manage the price risk associated with forecasted purchases of these inputs used in our production processes. Foreign exchange forward contracts are entered into to manage the fluctuations in foreign currency exchange rates, primarily as a result of certain receivable and payable balances. We also periodically utilize interest rate swaps to manage interest rate risk associated with our variable-rate borrowings.

TYSON FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored at all times, using Value-at-Risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit-worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at July 3, 2010.

We recognize all derivative instruments as either assets or liabilities at fair value in the Consolidated Condensed Balance Sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument based upon the exposure being hedged (i.e., fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation). We qualify, or designate, a derivative financial instrument as a hedge when contract terms closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. If a derivative instrument is accounted for as a hedge, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) (OCI) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized in earnings immediately. We designate certain forward contracts as follows:

- Cash Flow Hedges – include certain commodity forward contracts of forecasted purchases (i.e., grains) and certain foreign exchange forward contracts.
- Fair Value Hedges – include certain commodity forward contracts of forecasted purchases (i.e., livestock).
- Net Investment Hedges – include certain foreign currency forward contracts of permanently invested capital in certain foreign subsidiaries.

Cash flow hedges

Derivative instruments, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. We do not purchase forward commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 12 months. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three and nine months ended July 3, 2010, and June 27, 2009.

We had the following aggregated notionals of outstanding forward and option contracts accounted for as cash flow hedges:

| | Metric | July 3, 2010 | October 3, 2009 |
|------------------|-----------------------|--------------|-----------------|
| Commodity: | | | |
| Corn | Bushels | 32 million | 4 million |
| Soy meal | Tons | 121,500 | 16,900 |
| Foreign Currency | United States dollars | \$21 million | \$ — |

The net amount of pretax losses in accumulated OCI as of July 3, 2010, expected to be reclassified into earnings within the next 12 months, was \$2 million. During the three and nine months ended July 3, 2010, and June 27, 2009, we did not reclassify any pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges due to the probability the original forecasted transaction would not occur by the end of the originally specified time period or within the additional period of time allowed by generally accepted accounting principles.

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TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following table sets forth the pretax impact of cash flow hedge derivative instruments on the Consolidated Condensed Statements of Income (in millions):

| | Gain/(Loss) Recognized in OCI On Derivatives | | Consolidated Condensed Statements of Income Classification | Gain/(Loss) Reclassified from OCI to Earnings | |
|--|--|---------------|--|---|----------------|
| | Three Months Ended | | | Three Months Ended | |
| | July 3, 2010 | June 27, 2009 | | July 3, 2010 | June 27, 2009 |
| Cash Flow Hedge – Derivatives designated as hedging instruments: | | | | | |
| Commodity contracts | \$ 1 | \$ 3 | Cost of Sales | \$ (4) | \$ (22) |
| Foreign exchange contracts | 1 | — | Other Income/Expense | — | — |
| Total | <u>\$ 2</u> | <u>\$ 3</u> | | <u>\$ (4)</u> | <u>\$ (22)</u> |

| | Gain/(Loss) Recognized in OCI On Derivatives | | Consolidated Condensed Statements of Income Classification | Gain/(Loss) Reclassified from OCI to Earnings | |
|--|--|----------------|--|---|----------------|
| | Nine Months Ended | | | Nine Months Ended | |
| | July 3, 2010 | June 27, 2009 | | July 3, 2010 | June 27, 2009 |
| Cash Flow Hedge – Derivatives designated as hedging instruments: | | | | | |
| Commodity contracts | \$ (4) | \$ (58) | Cost of Sales | \$ (5) | \$ (66) |
| Foreign exchange contracts | 1 | 9 | Other Income/Expense | — | 7 |
| Total | <u>\$ (3)</u> | <u>\$ (49)</u> | | <u>\$ (5)</u> | <u>\$ (59)</u> |

Fair value hedges

We designate certain futures contracts as fair value hedges of firm commitments to purchase livestock for slaughter. Our objective of these hedges is to minimize the risk of changes in fair value created by fluctuations in commodity prices associated with fixed price livestock firm commitments. We had the following aggregated notionals of outstanding forward contracts entered into to hedge forecasted commodity purchases which are accounted for as a fair value hedge:

| | Metric | July 3, 2010 | October 3, 2009 |
|-------------|--------|--------------|-----------------|
| Commodity: | | | |
| Live Cattle | Pounds | 336 million | 133 million |
| Lean Hogs | Pounds | 420 million | 171 million |

For these derivative instruments we designate and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in earnings in the current period. We include the gain or loss on the hedged items (i.e., livestock purchase firm commitments) in the same line item, Cost of Sales, as the offsetting gain or loss on the related livestock forward position.

| | Consolidated Condensed Statements of Income Classification | in millions | | | |
|----------------------------------|--|--------------------|---------------|-------------------|---------------|
| | | Three Months Ended | | Nine Months Ended | |
| | | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Gain/(Loss) on forwards | Cost of Sales | \$ (28) | \$ 27 | \$ (44) | \$ 142 |
| Gain/(Loss) on purchase contract | Cost of Sales | 28 | (27) | 44 | (142) |

Ineffectiveness related to our fair value hedges was not significant for the three and nine months ended July 3, 2010, and June 27, 2009.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Foreign net investment hedges

We utilize forward foreign exchange contracts to protect the value of our net investments in certain foreign subsidiaries. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in OCI as part of the cumulative translation adjustment to the extent it is effective, with the related amounts due to or from counterparties included in other liabilities or other assets. We utilize the forward-rate method of assessing hedge effectiveness. Any ineffective portions of net investment hedges are recognized in the Consolidated Condensed Statements of Income during the period of change. Ineffectiveness related to our foreign net investment hedges was not significant for the three and nine months ended July 3, 2010, and June 27, 2009. At July 3, 2010, we had approximately \$49 million aggregate outstanding notionals related to our forward foreign currency contracts accounted for as foreign net investment hedges.

The following table sets forth the pretax impact of these derivative instruments on the Consolidated Condensed Statements of Income (in millions):

| | Gain/(Loss) Recognized in OCI On Derivatives | | Consolidated Condensed Statements of Income Classification | Gain/(Loss) Reclassified from OCI to Earnings | |
|--|--|---------------|--|---|---------------|
| | Three Months Ended | | | Three Months Ended | |
| | July 3, 2010 | June 27, 2009 | | July 3, 2010 | June 27, 2009 |
| Net Investment Hedge – Derivatives designated as hedging instruments: | | | | | |
| Foreign exchange contracts | \$ 2 | \$ (5) | Other Income/Expense | \$ — | \$ (2) |
| | Gain/(Loss) Recognized in OCI On Derivatives | | Consolidated Condensed Statements of Income Classification | Gain/(Loss) Reclassified from OCI to Earnings | |
| | Nine Months Ended | | | Nine Months Ended | |
| | July 3, 2010 | June 27, 2009 | | July 3, 2010 | June 27, 2009 |
| Net Investment Hedge – Derivatives designated as hedging instruments: | | | | | |
| Foreign exchange contracts | \$ 1 | \$ (6) | Other Income/Expense | \$ — | \$ (2) |

Undesignated positions

In addition to our designated positions, we also hold forward and option contracts for which we do not apply hedge accounting. These include certain derivative instruments related to commodities price risk, including grains, livestock and energy, foreign currency risk and interest rate risk. We mark these positions to fair value through earnings at each reporting date. We generally do not enter into undesignated positions beyond 18 months.

The objective of our undesignated grains, energy and livestock commodity positions is to reduce the variability of cash flows associated with the forecasted purchase of certain grains, energy and livestock inputs to our production processes. We also enter into certain forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs at fixed prices. The fixed price sales contracts lock in the proceeds from a sale in the future and the fixed cattle and hog purchases lock in the cost. However, the cost of the livestock and the related boxed beef and boxed pork market prices at the time of the sale or purchase could vary from this fixed price. As we enter into fixed forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs, we also enter into the appropriate number of livestock futures positions to mitigate a portion of this risk. Changes in market value of the open livestock futures positions are marked to market and reported in earnings at each reporting date, even though the economic impact of our fixed prices being above or below the market price is only realized at the time of sale or purchase. These positions generally do not qualify for hedge treatment due to location basis differences between the commodity exchanges and the actual locations when we purchase the commodities.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We have a foreign currency cash flow hedging program to hedge portions of forecasted transactions denominated in foreign currencies, primarily with forward contracts, to protect against the reduction in value of forecasted foreign currency cash flows. Our undesignated foreign currency positions generally would qualify for cash flow hedge accounting. However, to reduce earnings volatility, we normally will not elect hedge accounting treatment when the position provides an offset to the underlying related transaction that currently impacts earnings.

The objective of our undesignated interest rate swap is to manage interest rate risk exposure on a floating-rate bond. Our interest rate swap agreement effectively modifies our exposure to interest rate risk by converting a portion of the floating-rate bond to a fixed rate basis for the first five years, thus reducing the impact of the interest-rate changes on future interest expense. This interest rate swap does not qualify for hedge treatment due to differences in the underlying bond and swap contract interest-rate indices.

We had the following aggregate outstanding notionals related to our undesignated positions:

| | <u>Metric</u> | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|-------------------|-------------------------------|---------------------|------------------------|
| Commodity: | | | |
| Corn | Bushels | 18 million | 11 million |
| Soy meal | Tons | 221,400 | 73,000 |
| Live Cattle | Pounds | 43 million | 82 million |
| Lean Hogs | Pounds | 100 million | 11 million |
| Natural Gas | British thermal units | 240 billion | 850 billion |
| Foreign Currency | United States dollars | \$ 84 million | \$124 million |
| Interest Rate | Average monthly notional debt | \$ 56 million | \$ 64 million |

Included in our undesignated positions are certain commodity grain positions (which do not qualify for hedge treatment) we enter into to manage the risk of costs associated with forward sales to certain customers for which sales prices are determined under cost-plus arrangements. These unrealized positions totaled \$0 and losses of \$17 million at July 3, 2010, and October 3, 2009, respectively. When these positions are liquidated, we expect any realized gains or losses will be reflected in the prices of the poultry products sold. Since these derivative positions did not qualify for hedge treatment, they initially created volatility in our earnings associated with changes in fair value. However, once the positions were liquidated and included in the sales price to the customer, there was ultimately no earnings impact as any previous fair value gains or losses were included in the prices of the poultry products.

The following table sets forth the pretax impact of the undesignated derivative instruments on the Consolidated Condensed Statements of Income (in millions):

| | <u>Consolidated Condensed Statements of Income Classification</u> | <u>Gain/(Loss) Recognized in Earnings</u> | | <u>Gain/(Loss) Recognized in Earnings</u> | |
|---|---|---|----------------------|---|----------------------|
| | | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
| | | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Derivatives not designated as hedging instruments: | | | | | |
| Commodity contracts | Sales | \$ (5) | \$ (6) | \$ 17 | \$ (28) |
| Commodity contracts | Cost of Sales | 20 | 22 | (11) | (152) |
| Foreign exchange contracts | Other Income/Expense | 2 | (8) | — | 1 |
| Interest rate contracts | Interest Expense | 1 | — | 1 | (3) |
| Total | | <u>\$ 18</u> | <u>\$ 8</u> | <u>\$ 7</u> | <u>\$ (182)</u> |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following table sets forth the fair value of all derivative instruments outstanding in the Consolidated Condensed Balance Sheets (in millions):

| | Balance Sheet Classification | Fair Value | |
|--|------------------------------|--------------|-----------------|
| | | July 3, 2010 | October 3, 2009 |
| Derivative Assets: | | | |
| Derivatives designated as hedging instruments: | | | |
| Commodity contracts | Other current assets | \$ 19 | \$ 12 |
| Foreign exchange contracts | Other current assets | 3 | — |
| Total derivative assets – designated | | 22 | 12 |
| Derivatives not designated as hedging instruments: | | | |
| Commodity contracts | Other current assets | 6 | 9 |
| Foreign exchange contracts | Other current assets | 3 | — |
| Total derivative assets – not designated | | 9 | 9 |
| Total derivative assets | | \$ 31 | \$ 21 |
| Derivative Liabilities: | | | |
| Derivatives designated as hedging instruments: | | | |
| Commodity contracts | Other current liabilities | \$ 7 | \$ 2 |
| Derivatives not designated as hedging instruments: | | | |
| Commodity contracts | Other current liabilities | 15 | 13 |
| Foreign exchange contracts | Other current liabilities | — | 1 |
| Interest rate contracts | Other current liabilities | 3 | 4 |
| Total derivative liabilities – not designated | | 18 | 18 |
| Total derivative liabilities | | \$ 25 | \$ 20 |

Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. See Note 11: Fair Value Measurements for a reconciliation to amounts reported in the Consolidated Condensed Balance Sheets.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

NOTE 6: INVENTORIES

Processed products, livestock and supplies and other are valued at the lower of cost or market. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, contract grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories. Total inventory consists of the following (in millions):

| | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|--|---------------------|------------------------|
| Processed products: | | |
| Weighted-average method – chicken and prepared foods | \$ 677 | \$ 629 |
| First-in, first-out method – beef and pork | 402 | 414 |
| Livestock – first-in, first-out method | 720 | 631 |
| Supplies and other – weighted-average method | 333 | 335 |
| Total inventories, net | <u>\$ 2,132</u> | <u>\$ 2,009</u> |

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and accumulated depreciation are as follows (in millions):

| | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|--|---------------------|------------------------|
| Land | \$ 97 | \$ 96 |
| Buildings and leasehold improvements | 2,593 | 2,570 |
| Machinery and equipment | 4,630 | 4,640 |
| Land improvements and other | 230 | 227 |
| Buildings and equipment under construction | 509 | 297 |
| | 8,059 | 7,830 |
| Less accumulated depreciation | 4,428 | 4,254 |
| Net property, plant and equipment | <u>\$ 3,631</u> | <u>\$ 3,576</u> |

NOTE 8: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

| | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|--------------------------------------|---------------------|------------------------|
| Accrued salaries, wages and benefits | \$ 400 | \$ 187 |
| Self-insurance reserves | 249 | 230 |
| Other | 424 | 344 |
| Total other current liabilities | <u>\$ 1,073</u> | <u>\$ 761</u> |

NOTE 9: COMMITMENTS

We guarantee obligations of certain outside third parties, which consists of a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to eight years, and the maximum potential amount of future payments as of July 3, 2010, was \$66 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The remaining terms of the lease maturities cover periods over the next six years. The maximum potential amount of the residual value guarantees is \$54 million, of which \$22 million would be recoverable through various recourse provisions and an additional undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At July 3, 2010, and October 3, 2009, no material liabilities for guarantees were recorded.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier's net tangible assets. The potential maximum obligation as of July 3, 2010, was approximately \$225 million. The total receivables under these programs were \$70 million and \$72 million at July 3, 2010, and October 3, 2009, respectively. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers' assets. After analyzing residual credit risks and general market conditions, we recorded an allowance for these programs' estimated uncollectible receivables of \$22 million and \$20 million at July 3, 2010, and October 3, 2009, respectively. At July 3, 2010, net of the allowance, we had \$25 million recorded in Accounts Receivable and \$23 million in Other Assets in our Consolidated Condensed Balance Sheets, while at October 3, 2009, the entire balance was recorded in Other Assets.

The minority partner in our Shandong Tyson Xinchang Foods joint ventures in China has the right to exercise put options to require us to purchase its entire 40% equity interest at a price equal to the minority partner's contributed capital plus (minus) its pro-rata share of the joint venture's accumulated and undistributed net earnings (losses). The put options are exercisable for a five-year term commencing April 2011. At July 3, 2010, the put options, if they had been exercisable, would have resulted in a purchase price of approximately \$68 million for the minority partner's entire equity interest. We do not believe the exercise of the put options would materially impact our results of operations or financial condition.

NOTE 10: DEBT

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

| | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|---|---------------------|------------------------|
| Revolving credit facility – expires March 2012 | \$ — | \$ — |
| Senior notes: | | |
| 7.95% Notes due February 2010 (2010 Notes) | — | 140 |
| 8.25% Notes due October 2011 (2011 Notes) | 327 | 839 |
| 3.25% Convertible senior notes due October 2013 (2013 Notes) | 458 | 458 |
| 10.50% Senior notes due March 2014 (2014 Notes) | 810 | 810 |
| 7.85% Senior notes due April 2016 (2016 Notes) | 705 | 923 |
| 7.00% Notes due May 2018 | 134 | 174 |
| 7.125% Senior notes due February 2026 | — | 9 |
| 7.00% Notes due January 2028 | 23 | 27 |
| Discount on senior notes | (112) | (132) |
| GO Zone tax-exempt bonds due October 2033 (0.13% at 7/3/2010) | 100 | 100 |
| Other | 137 | 129 |
| Total debt | <u>2,582</u> | <u>3,477</u> |
| Less current debt | 93 | 219 |
| Total long-term debt | <u>\$ 2,489</u> | <u>\$ 3,258</u> |

Revolving Credit Facility

We have a \$1.0 billion revolving credit facility that supports short-term funding needs and letters of credit. Loans made under this facility will mature and the commitments thereunder will terminate in March 2012. However, if our 2011 Notes are not refinanced, purchased or defeased prior to July 3, 2011, the outstanding loans under this facility will mature on and commitments thereunder will terminate on July 3, 2011.

TYSON FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Availability under this facility, up to \$1.0 billion, is based on a percentage of certain eligible receivables and eligible inventory and is reduced by certain reserves. After reducing the amount eligible by outstanding letters of credit issued under this facility, the amount available for borrowing under this facility at July 3, 2010, was \$828 million. At July 3, 2010, we had outstanding letters of credit issued under this facility totaling approximately \$172 million, none of which were drawn upon. Our letters of credit are issued primarily in support of workers' compensation insurance programs, derivative activities and Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds. We had an additional \$67 million of bilateral letters of credit not issued under this facility, none of which were drawn upon.

This facility is fully and unconditionally guaranteed on a senior secured basis by substantially all of our domestic subsidiaries. The guarantors' cash, accounts receivable, inventory and proceeds received related to these items secure our obligations under this facility.

2010 Notes

In March 2009, we issued \$810 million of senior unsecured notes, which will mature in March 2014. We placed a portion of the net proceeds in a blocked cash collateral account used for the payment, prepayment, repurchase or defeasance of the 2010 Notes. These proceeds were recorded in Current Assets as Restricted Cash in the Consolidated Condensed Balance Sheets at October 3, 2009. On February 1, 2010, we used the remaining proceeds as payment for the outstanding 2010 Notes.

2013 Notes

In September 2008, we issued \$458 million principal amount 3.25% convertible senior unsecured notes due October 15, 2013, with interest payable semi-annually in arrears on April 15 and October 15. The conversion rate initially is 59.1935 shares of Class A stock per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of \$16.89 per share of Class A stock. The 2013 Notes may be converted before the close of business on July 12, 2013, only under the following circumstances:

- during any fiscal quarter after December 27, 2008, if the last reported sale price of our Class A stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is at least 130% of the applicable conversion price on each applicable trading day (which would currently require our shares to trade at or above \$21.96); or
- during the five business days after any 10 consecutive trading days (measurement period) in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A stock and the applicable conversion rate on each such day; or
- upon the occurrence of specified corporate events as defined in the supplemental indenture.

On and after July 15, 2013, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, we will deliver cash up to the aggregate principal amount of the 2013 Notes to be converted and shares of our Class A stock in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the 2013 Notes being converted. As of July 3, 2010, none of the conditions permitting conversion of the 2013 Notes had been satisfied.

The 2013 Notes were originally accounted for as a combined instrument because the conversion feature did not meet the requirements to be accounted for separately as a derivative financial instrument. However, we adopted new accounting guidance in the first quarter of fiscal 2010 and applied it retrospectively to all periods presented. This new accounting guidance required us to separately account for the liability and equity conversion features. Upon retrospective adoption, our effective interest rate on the 2013 Notes was determined to be 8.26%, which resulted in the recognition of a \$92 million discount to these notes with the offsetting after tax amount of \$56 million recorded to capital in excess of par value. This discount will be accreted over the five-year term of the convertible notes at the effective interest rate.

In connection with the issuance of the 2013 Notes, we entered into separate convertible note hedge transactions with respect to our Class A stock to minimize the potential economic dilution upon conversion of the 2013 Notes. We also entered into separate warrant transactions. We recorded the purchase of the note hedge transactions as a reduction to capital in excess of par value, net of \$36 million pertaining to the related deferred tax asset, and we recorded the proceeds of the warrant transactions as an increase to capital in excess of par value. Subsequent changes in fair value of these instruments are not recognized in the financial statements as long as the instruments continue to meet the criteria for equity classification.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

We purchased call options in private transactions for \$94 million that permit us to acquire up to approximately 27 million shares of our Class A stock at an initial strike price of \$16.89 per share, subject to adjustment. The call options allow us to acquire a number of shares of our Class A stock initially equal to the number of shares of Class A stock issuable to the holders of the 2013 Notes upon conversion. These call options will terminate upon the maturity of the 2013 Notes.

We sold warrants in private transactions for total proceeds of \$44 million. The warrants permit the purchasers to acquire up to approximately 27 million shares of our Class A stock at an initial exercise price of \$22.31 per share, subject to adjustment. The warrants are exercisable on various dates from January 2014 through March 2014.

The maximum amount of shares that may be issued to satisfy the conversion of the 2013 Notes is limited to 35.9 million shares. However, the convertible note hedge and warrant transactions, in effect, increase the initial conversion price of the 2013 Notes from \$16.89 per share to \$22.31 per share, thus reducing the potential future economic dilution associated with conversion of the 2013 Notes. If our share price is below \$22.31 upon conversion of the 2013 Notes, there is no economic net share impact. Upon conversion, a 10% increase in our share price above the \$22.31 conversion price would result in the issuance of 2.5 million incremental shares. The 2013 Notes and the warrants could have a dilutive effect on our earnings per share to the extent the price of our Class A stock during a given measurement period exceeds the respective exercise prices of those instruments. The call options are excluded from the calculation of diluted earnings per share as their impact is anti-dilutive.

GO Zone Tax-Exempt Bonds

In October 2008, Dynamic Fuels received \$100 million in proceeds from the sale of Gulf Opportunity Zone tax-exempt bonds made available by the federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These floating rate bonds are due October 1, 2033. In November 2008, we entered into an interest rate swap related to these bonds to mitigate our interest rate risk on a portion of the bonds for five years. We also issued a letter of credit as a guarantee for the entire bond issuance. The proceeds from the bond issuance could only be used towards the construction of the Dynamic Fuels' facility. Accordingly, the unused proceeds were recorded as non-current Restricted Cash in the Consolidated Condensed Balance Sheets and were substantially utilized prior to the end of the third quarter of fiscal 2010.

Debt Covenants

Our revolving credit facility contains affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens and encumbrances; incur debt; merge, dissolve, liquidate or consolidate; make acquisitions and investments; dispose of or transfer assets; pay dividends or make other payments in respect of our capital stock; amend material documents; change the nature of our business; make certain payments of debt; engage in certain transactions with affiliates; and enter into sale/leaseback or hedging transactions, in each case, subject to certain qualifications and exceptions. If availability under this facility is less than the greater of 15% of the commitments and \$150 million, we will be required to maintain a minimum fixed charge coverage ratio.

Our 2014 Notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: incur additional debt and issue preferred stock; make certain investments and restricted payments; create liens; create restrictions on distributions from subsidiaries; engage in specified sales of assets and subsidiary stock; enter into transactions with affiliates; enter new lines of business; engage in consolidation, mergers and acquisitions; and engage in certain sale/leaseback transactions.

Condensed Consolidating Financial Statements

Tyson Fresh Meats, Inc. (TFM Parent), our wholly-owned subsidiary, has fully and unconditionally guaranteed the 2016 Notes. TFM Parent and substantially all of our wholly-owned domestic subsidiaries have fully and unconditionally guaranteed the 2014 Notes. The following financial information presents condensed consolidating financial statements, which include Tyson Foods, Inc. (TFI Parent); TFM Parent; the other 2014 Notes' guarantor subsidiaries (Guarantors) on a combined basis; the elimination entries necessary to reflect TFM Parent and the Guarantors, which collectively represent the 2014 Notes' total guarantor subsidiaries (2014 Guarantors), on a combined basis; the 2014 Notes' non-guarantor subsidiaries (Non-Guarantors) on a combined basis; the elimination entries necessary to consolidate TFI Parent, the 2014 Guarantors and the Non-Guarantors; and Tyson Foods, Inc. on a consolidated basis, and is provided as an alternative to providing separate financial statements for the guarantor(s).

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Condensed Consolidating Statement of Income for the three months ended July 3, 2010

in millions

| | 2014 Guarantors | | | | | | | Total |
|--|-----------------|---------------|--------------|---------------|---------------|----------------|-----------------|---------------|
| | TFI Parent | TFM Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | |
| Sales | \$ 166 | \$4,317 | \$ 3,084 | \$ (261) | \$7,140 | \$ 297 | \$ (165) | \$7,438 |
| Cost of Sales | — | 3,968 | 2,868 | (261) | 6,575 | 276 | (165) | 6,686 |
| Gross Profit | 166 | 349 | 216 | — | 565 | 21 | — | 752 |
| Selling, general and administrative | 45 | 52 | 124 | — | 176 | 24 | — | 245 |
| Operating Income (Loss) | 121 | 297 | 92 | — | 389 | (3) | — | 507 |
| Other (Income) Expense: | | | | | | | | |
| Interest expense, net | 98 | (1) | 5 | — | 4 | (4) | — | 98 |
| Other, net | 14 | (1) | 1 | — | — | — | — | 14 |
| Equity in net earnings of subsidiaries | (247) | (6) | 1 | 5 | — | (2) | 249 | — |
| Total Other (Income) Expense | (135) | (8) | 7 | 5 | 4 | (6) | 249 | 112 |
| Income (Loss) from Continuing Operations before Income Taxes | 256 | 305 | 85 | (5) | 385 | 3 | (249) | 395 |
| Income Tax Expense | 8 | 108 | 28 | — | 136 | 9 | — | 153 |
| Net Income (Loss) | 248 | 197 | 57 | (5) | 249 | (6) | (249) | 242 |
| Less: Net Loss Attributable to Noncontrolling Interest | — | — | — | — | — | (6) | — | (6) |
| Net Income (Loss) Attributable to Tyson | <u>\$ 248</u> | <u>\$ 197</u> | <u>\$ 57</u> | <u>\$ (5)</u> | <u>\$ 249</u> | <u>\$ —</u> | <u>\$ (249)</u> | <u>\$ 248</u> |

Condensed Consolidating Statement of Income for the three months ended June 27, 2009

in millions

| | 2014 Guarantors | | | | | | | Total |
|--|-----------------|---------------|--------------|----------------|---------------|----------------|-----------------|---------------|
| | TFI Parent | TFM Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | |
| Sales | \$ 3 | \$3,651 | \$ 2,994 | \$ (176) | \$6,469 | \$ 198 | \$ (8) | \$6,662 |
| Cost of Sales | (155) | 3,527 | 2,836 | (176) | 6,187 | 168 | (8) | 6,192 |
| Gross Profit | 158 | 124 | 158 | — | 282 | 30 | — | 470 |
| Selling, general and administrative | 38 | 41 | 96 | — | 137 | 17 | — | 192 |
| Other charges | — | — | 2 | — | 2 | — | — | 2 |
| Operating Income | 120 | 83 | 60 | — | 143 | 13 | — | 276 |
| Other (Income) Expense: | | | | | | | | |
| Interest expense, net | 80 | 7 | 4 | — | 11 | (4) | — | 87 |
| Other, net | 7 | (1) | (3) | — | (4) | (6) | — | (3) |
| Equity in net earnings of subsidiaries | (119) | (25) | (19) | 19 | (25) | (5) | 149 | — |
| Total Other (Income) Expense | (32) | (19) | (18) | 19 | (18) | (15) | 149 | 84 |
| Income (Loss) from Continuing Operations before Income Taxes | 152 | 102 | 78 | (19) | 161 | 28 | (149) | 192 |
| Income Tax Expense | 23 | 22 | 16 | — | 38 | 8 | — | 69 |
| Income (Loss) from Continuing Operations | 129 | 80 | 62 | (19) | 123 | 20 | (149) | 123 |
| Income (Loss) from Discontinued Operation, net of tax | 1 | (3) | — | — | (3) | 9 | — | 7 |
| Net Income (Loss) | 130 | 77 | 62 | (19) | 120 | 29 | (149) | 130 |
| Less: Net Loss Attributable to Noncontrolling Interest | (1) | — | — | — | — | — | — | (1) |
| Net Income (Loss) Attributable to Tyson | <u>\$ 131</u> | <u>\$ 77</u> | <u>\$ 62</u> | <u>\$ (19)</u> | <u>\$ 120</u> | <u>\$ 29</u> | <u>\$ (149)</u> | <u>\$ 131</u> |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Condensed Consolidating Statement of Income for the nine months ended July 3, 2010

in millions

| | 2014 Guarantors | | | | | | | Total |
|--|-----------------|---------------|---------------|----------------|---------------|----------------|-----------------|---------------|
| | TFI Parent | TFM Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | |
| Sales | \$ 387 | \$11,748 | \$ 9,070 | \$ (684) | \$20,134 | \$ 852 | \$ (384) | \$20,989 |
| Cost of Sales | (6) | 10,953 | 8,464 | (684) | 18,733 | 801 | (384) | 19,144 |
| Gross Profit | 393 | 795 | 606 | — | 1,401 | 51 | — | 1,845 |
| Selling, general and administrative | 98 | 140 | 379 | — | 519 | 63 | — | 680 |
| Operating Income (Loss) | 295 | 655 | 227 | — | 882 | (12) | — | 1,165 |
| Other (Income) Expense: | | | | | | | | |
| Interest expense, net | 268 | 2 | 13 | — | 15 | (12) | — | 271 |
| Other, net | 22 | — | (6) | — | (6) | (2) | — | 14 |
| Equity in net earnings of subsidiaries | (570) | (34) | 17 | 23 | 6 | (12) | 576 | — |
| Total Other (Income) Expense | (280) | (32) | 24 | 23 | 15 | (26) | 576 | 285 |
| Income (Loss) from Continuing Operations before Income Taxes | 575 | 687 | 203 | (23) | 867 | 14 | (576) | 880 |
| Income Tax Expense | 8 | 225 | 66 | — | 291 | 24 | — | 323 |
| Net Income (Loss) | 567 | 462 | 137 | (23) | 576 | (10) | (576) | 557 |
| Less: Net Loss Attributable to Noncontrolling Interest | — | — | — | — | — | (10) | — | (10) |
| Net Income (Loss) Attributable to Tyson | <u>\$ 567</u> | <u>\$ 462</u> | <u>\$ 137</u> | <u>\$ (23)</u> | <u>\$ 576</u> | <u>\$ —</u> | <u>\$ (576)</u> | <u>\$ 567</u> |

Condensed Consolidating Statement of Income for the nine months ended June 27, 2009

in millions

| | 2014 Guarantors | | | | | | | Total |
|--|-----------------|---------------|--------------|--------------|---------------|----------------|-----------------|----------------|
| | TFI Parent | TFM Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | |
| Sales | \$ 7 | \$10,584 | \$ 8,927 | \$ (546) | \$18,965 | \$ 539 | \$ (21) | \$19,490 |
| Cost of Sales | 127 | 10,272 | 8,436 | (546) | 18,162 | 481 | (21) | 18,749 |
| Gross Profit (Loss) | (120) | 312 | 491 | — | 803 | 58 | — | 741 |
| Selling, general and administrative | 98 | 143 | 326 | — | 469 | 50 | — | 617 |
| Other charges | — | — | 17 | — | 17 | — | — | 17 |
| Operating Income (Loss) | (218) | 169 | 148 | — | 317 | 8 | — | 107 |
| Other (Income) Expense: | | | | | | | | |
| Interest expense, net | 201 | 11 | 13 | — | 24 | (2) | — | 223 |
| Other, net | 7 | (3) | (3) | — | (6) | 17 | — | 18 |
| Equity in net earnings of subsidiaries | (182) | (8) | 38 | (4) | 26 | (11) | 167 | — |
| Total Other (Income) Expense | 26 | — | 48 | (4) | 44 | 4 | 167 | 241 |
| Income (Loss) from Continuing Operations before Income Taxes | (244) | 169 | 100 | 4 | 273 | 4 | (167) | (134) |
| Income Tax Expense (Benefit) | (133) | 50 | 43 | — | 93 | (2) | — | (42) |
| Income (Loss) from Continuing Operations | (111) | 119 | 57 | 4 | 180 | 6 | (167) | (92) |
| Income (Loss) from Discontinued Operation, net of tax | 21 | 5 | — | — | 5 | (27) | — | (1) |
| Net Income (Loss) | (90) | 124 | 57 | 4 | 185 | (21) | (167) | (93) |
| Less: Net Loss Attributable to Noncontrolling Interest | — | — | — | — | — | (3) | — | (3) |
| Net Income (Loss) Attributable to Tyson | <u>\$ (90)</u> | <u>\$ 124</u> | <u>\$ 57</u> | <u>\$ 4</u> | <u>\$ 185</u> | <u>\$ (18)</u> | <u>\$ (167)</u> | <u>\$ (90)</u> |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Condensed Consolidating Balance Sheet as of July 3, 2010

in millions

| | TFI Parent | 2014 Guarantors | | | | Non-Guarantors | Eliminations | Total |
|---|---------------|-----------------|------------|--------------|----------|----------------|--------------|----------|
| | | TFM Parent | Guarantors | Eliminations | Subtotal | | | |
| Assets | | | | | | | | |
| Current Assets: | | | | | | | | |
| Cash and cash equivalents | \$ — | \$ 2 | \$ 672 | \$ — | \$ 674 | \$ 160 | \$ — | \$ 834 |
| Accounts receivable, net | — | 679 | 3,795 | — | 4,474 | 128 | (3,373) | 1,229 |
| Inventories, net | 2 | 646 | 1,311 | — | 1,957 | 173 | — | 2,132 |
| Other current assets | 28 | 62 | 30 | (12) | 80 | 70 | (9) | 169 |
| Total Current Assets | 30 | 1,389 | 5,808 | (12) | 7,185 | 531 | (3,382) | 4,364 |
| Net Property, Plant and Equipment | 40 | 863 | 2,238 | — | 3,101 | 490 | — | 3,631 |
| Goodwill | — | 880 | 968 | — | 1,848 | 68 | — | 1,916 |
| Intangible Assets | — | 38 | 55 | — | 93 | 75 | — | 168 |
| Other Assets | 140 | 84 | 43 | — | 127 | 304 | (183) | 388 |
| Investment in Subsidiaries | 10,610 | 1,784 | 657 | (1,606) | 835 | 309 | (11,754) | — |
| Total Assets | \$10,820 | \$5,038 | \$ 9,769 | \$ (1,618) | \$13,189 | \$ 1,777 | \$ (15,319) | \$10,467 |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Current Liabilities: | | | | | | | | |
| Current debt | \$ 2 | \$ — | \$ — | \$ — | \$ — | \$ 91 | \$ — | \$ 93 |
| Accounts payable | 12 | 381 | 536 | — | 917 | 67 | — | 996 |
| Other current liabilities | 3,411 | 220 | 431 | (12) | 639 | 405 | (3,382) | 1,073 |
| Total Current Liabilities | 3,425 | 601 | 967 | (12) | 1,556 | 563 | (3,382) | 2,162 |
| Long-Term Debt | 2,362 | — | 180 | — | 180 | 127 | (180) | 2,489 |
| Deferred Income Taxes | — | 104 | 180 | — | 284 | 3 | (3) | 284 |
| Other Liabilities | 109 | 154 | 205 | — | 359 | 45 | — | 513 |
| Redeemable Noncontrolling Interest | — | — | — | — | — | 63 | — | 63 |
| Total Tyson Shareholders' Equity | 4,924 | 4,179 | 8,237 | (1,606) | 10,810 | 944 | (11,754) | 4,924 |
| Noncontrolling Interest | — | — | — | — | — | 32 | — | 32 |
| Total Shareholders' Equity | 4,924 | 4,179 | 8,237 | (1,606) | 10,810 | 976 | (11,754) | 4,956 |
| Total Liabilities and Shareholders' Equity | \$10,820 | \$5,038 | \$ 9,769 | \$ (1,618) | \$13,189 | \$ 1,777 | \$ (15,319) | \$10,467 |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Condensed Consolidating Balance Sheet as of October 3, 2009

in millions

| | TFI Parent | 2014 Guarantors | | | Subtotal | Non-Guarantors | Eliminations | Total |
|---|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|--------------------|-----------------|
| | | TFM Parent | Guarantors | Eliminations | | | | |
| Assets | | | | | | | | |
| Current Assets: | | | | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 788 | \$ — | \$ 788 | \$ 216 | \$ — | \$ 1,004 |
| Restricted cash | — | — | 140 | — | 140 | — | — | 140 |
| Accounts receivable, net | 2 | 418 | 3,309 | (7) | 3,720 | 116 | (2,738) | 1,100 |
| Inventories, net | 1 | 586 | 1,239 | — | 1,825 | 183 | — | 2,009 |
| Other current assets | 198 | 89 | 29 | (17) | 101 | 36 | (213) | 122 |
| Total Current Assets | 201 | 1,093 | 5,505 | (24) | 6,574 | 551 | (2,951) | 4,375 |
| Restricted Cash | — | — | — | — | — | 43 | — | 43 |
| Net Property, Plant and Equipment | 40 | 883 | 2,256 | — | 3,139 | 397 | — | 3,576 |
| Goodwill | — | 881 | 977 | — | 1,858 | 59 | — | 1,917 |
| Intangible Assets | — | 42 | 59 | — | 101 | 86 | — | 187 |
| Other Assets | 211 | 120 | 37 | — | 157 | 346 | (217) | 497 |
| Investment in Subsidiaries | 10,038 | 1,763 | 674 | (1,597) | 840 | 296 | (11,174) | — |
| Total Assets | \$10,490 | \$4,782 | \$ 9,508 | \$ (1,621) | \$12,669 | \$ 1,778 | \$ (14,342) | \$10,595 |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Current Liabilities: | | | | | | | | |
| Current debt | \$ 3 | \$ 140 | \$ — | \$ — | \$ 140 | \$ 76 | \$ — | \$ 219 |
| Accounts payable | 15 | 375 | 550 | — | 925 | 73 | — | 1,013 |
| Other current liabilities | 2,790 | 251 | 296 | (24) | 523 | 399 | (2,951) | 761 |
| Total Current Liabilities | 2,808 | 766 | 846 | (24) | 1,588 | 548 | (2,951) | 1,993 |
| Long-Term Debt | 3,112 | 15 | 180 | — | 195 | 131 | (180) | 3,258 |
| Deferred Income Taxes | 29 | 108 | 182 | — | 290 | 27 | (37) | 309 |
| Other Liabilities | 143 | 161 | 202 | — | 363 | 33 | — | 539 |
| Redeemable Noncontrolling Interest | — | — | — | — | — | 65 | — | 65 |
| Total Tyson Shareholders' Equity | 4,398 | 3,732 | 8,098 | (1,597) | 10,233 | 941 | (11,174) | 4,398 |
| Noncontrolling Interest | — | — | — | — | — | 33 | — | 33 |
| Total Shareholders' Equity | 4,398 | 3,732 | 8,098 | (1,597) | 10,233 | 974 | (11,174) | 4,431 |
| Total Liabilities and Shareholders' Equity | \$10,490 | \$4,782 | \$ 9,508 | \$ (1,621) | \$12,669 | \$ 1,778 | \$ (14,342) | \$10,595 |

| | | | | | | | | |
|--|-------------|-------------|---------------|-------------|---------------|---------------|-------------|---------------|
| Net change in debt | 563 | (94) | — | — | (94) | 90 | — | 559 |
| Debt issuance costs | (58) | — | — | — | — | (2) | — | (60) |
| Change in restricted cash | — | — | (140) | — | (140) | — | — | (140) |
| Purchase of treasury shares | (11) | — | — | — | — | — | — | (11) |
| Dividends | (44) | — | — | — | — | (25) | 25 | (44) |
| Other, net | — | (25) | (81) | — | (106) | (4) | — | (110) |
| Net change in intercompany balances | (201) | (81) | 250 | — | 169 | 32 | — | — |
| Cash Provided by (Used for) Financing Activities | 249 | (200) | 29 | — | (171) | 91 | 25 | 194 |
| Effect of Exchange Rate Change on Cash | — | — | — | — | — | 15 | — | 15 |
| Increase (Decrease) in Cash and Cash Equivalents | (140) | — | 683 | — | 683 | 52 | — | 595 |
| Cash and Cash Equivalents at Beginning of Year | 140 | — | 35 | — | 35 | 75 | — | 250 |
| Cash and Cash Equivalents at End of Period | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 718</u> | <u>\$ —</u> | <u>\$ 718</u> | <u>\$ 127</u> | <u>\$ —</u> | <u>\$ 845</u> |

TYSON FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**NOTE 11: FAIR VALUE MEASUREMENTS**

We adopted fair value measurement accounting guidance at the beginning of fiscal 2009. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. This guidance also defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by this standard contains three levels as follows:

Level 1 — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables set forth by level within the fair value hierarchy our financial assets and liabilities accounted for at fair value on a recurring basis according to the valuation techniques we used to determine their fair values (in millions):

| <u>July 3, 2010</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Netting (a)</u> | <u>Total</u> |
|---------------------------------------|----------------|----------------|----------------|--------------------|--------------|
| Assets: | | | | | |
| Commodity Derivatives | \$ — | \$ 25 | \$ — | \$ (9) | \$ 16 |
| Foreign Exchange Forward Contracts | — | 6 | — | (2) | 4 |
| Available for Sale Securities: | | | | | |
| Debt securities | — | 40 | 73 | — | 113 |
| Equity securities | 13 | — | — | — | 13 |
| Deferred Compensation Assets | — | 78 | — | — | 78 |
| Total Assets | <u>\$ 13</u> | <u>\$ 149</u> | <u>\$ 73</u> | <u>\$ (11)</u> | <u>\$224</u> |
| Liabilities: | | | | | |
| Commodity Derivatives | \$ — | \$ 22 | \$ — | \$ (21) | \$ 1 |
| Interest Rate Swap | — | 3 | — | (2) | 1 |
| Total Liabilities | <u>\$ —</u> | <u>\$ 25</u> | <u>\$ —</u> | <u>\$ (23)</u> | <u>\$ 2</u> |
| | | | | | |
| <u>October 3, 2009</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Netting (a)</u> | <u>Total</u> |
| Assets: | | | | | |
| Commodity Derivatives | \$ — | \$ 21 | \$ — | \$ (17) | \$ 4 |
| Available for Sale Securities: | | | | | |
| Debt securities | — | 33 | 72 | — | 105 |
| Equity securities | 20 | — | — | — | 20 |
| Deferred Compensation Assets | 2 | 84 | — | — | 86 |
| Total Assets | <u>\$ 22</u> | <u>\$ 138</u> | <u>\$ 72</u> | <u>\$ (17)</u> | <u>\$215</u> |
| Liabilities: | | | | | |
| Commodity Derivatives | \$ — | \$ 15 | \$ — | \$ (11) | \$ 4 |
| Foreign Exchange Forward Contracts | — | 1 | — | — | 1 |
| Interest Rate Swap | — | 4 | — | (2) | 2 |
| Total Liabilities | <u>\$ —</u> | <u>\$ 20</u> | <u>\$ —</u> | <u>\$ (13)</u> | <u>\$ 7</u> |

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At July 3, 2010, we had posted \$13 million of cash collateral and held no cash collateral with various counterparties. At October 3, 2009, we had posted \$4 million of cash collateral and held no cash collateral with various counterparties.

The following table provides a reconciliation between the beginning and ending balance of debt securities measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in millions):

| | Nine Months Ended | |
|---|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 |
| Balance at beginning of year | \$ 72 | \$ 54 |
| Total realized and unrealized gains (losses): | | |
| Included in earnings | 1 | (4) |
| Included in other comprehensive income | 2 | 2 |
| Purchases, issuances and settlements, net | (2) | 22 |
| Balance at end of period | <u>\$ 73</u> | <u>\$ 74</u> |
| Total gains (losses) for the nine-month periods included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period | <u>\$ —</u> | <u>\$ (4)</u> |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Derivative Assets and Liabilities: Our derivatives, including commodities, foreign exchange forward contracts and an interest rate swap, primarily include exchange-traded and over-the-counter contracts which are further described in Note 5: Derivative Financial Instruments. We record our commodity derivatives at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward commodity market prices. Our foreign exchange forward contracts are recorded at fair value based on quoted prices and spot and forward currency prices adjusted for credit and non-performance risk. Our interest rate swap is recorded at fair value based on quoted LIBOR swap rates adjusted for credit and non-performance risk. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges, observable market transactions of spot currency rates and forward currency prices or observable benchmark market rates at commonly quoted intervals.

Available for Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are included in Other Assets in the Consolidated Condensed Balance Sheets. These investments, which are generally long-term in nature with maturities ranging up to 46 years, are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. We classify our investments in U.S. government and agency debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into proprietary valuation models, including estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle.

In October 2008, we received eight million warrants to purchase an equivalent amount of Syntroleum Corporation common stock for one cent each in return for our entering into a letter of credit to guarantee all of the Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds (see Note 10: Debt), including Syntroleum Corporation's 50 percent ownership portion. In April 2009, we exercised these warrants for eight million shares of Syntroleum Corporation. We record the shares in Other Assets in the Consolidated Condensed Balance Sheets at fair value based on quoted market prices. We classify the shares as Level 1 as the fair value is based on unadjusted quoted prices available in active markets.

TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

| <u>(in millions)</u> | July 3, 2010 | | | October 3, 2009 | | |
|----------------------------------|--------------|-------|------------|-----------------|-------|------------|
| | Amortized | Fair | Unrealized | Amortized | Fair | Unrealized |
| | Cost Basis | Value | Gain | Cost Basis | Value | Gain |
| Available for Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| U.S. Treasury and Agency | \$ 39 | \$ 40 | \$ 1 | \$ 33 | \$ 33 | \$ — |
| Corporate and Asset-Backed (a) | 44 | 48 | 4 | 46 | 48 | 2 |
| Redeemable Preferred Stock | 25 | 25 | — | 24 | 24 | — |
| Equity Securities – Common Stock | 9 | 13 | 4 | 9 | 20 | 11 |

(a) At July 3, 2010, and October 3, 2009, the amortized cost basis for Corporate and Asset-Backed debt securities had been reduced by accumulated other than temporary impairments of \$3 million and \$4 million, respectively.

Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. For the three and nine months ending July 3, 2010, we recognized no other than temporary impairments in earnings, while we recognized \$0 and \$4 million of other than temporary impairments for the three and nine months ending June 27, 2009, respectively. No other than temporary losses were deferred in OCI during the three and nine months ending July 3, 2010, and June 27, 2009.

Deferred Compensation Assets: We maintain two non-qualified deferred compensation plans for certain executives and other highly compensated employees. Investments are maintained within a trust and include money market funds, mutual funds and life insurance policies. The cash surrender value of the life insurance policies is invested primarily in mutual funds. The investments are recorded at fair value based on quoted market prices adjusted for credit and non-performance risk and are included in Other Assets in the Consolidated Condensed Balance Sheets. We classify the investments which have observable market prices in active markets in Level 1 as these are generally publicly-traded mutual funds. The remaining deferred compensation assets are classified in Level 2, as fair value can be corroborated based on observable market data. Realized and unrealized gains (losses) on deferred compensation are included in earnings.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Disclosures for nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, were required prospectively beginning in the first quarter of fiscal 2010. During the three and nine months ended July 3, 2010, we had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Other Financial Instruments

Fair values for debt are based on quoted market prices or published forward interest rate curves. Fair value and carrying value for our debt were as follows (in millions):

| | July 3, 2010 | | October 3, 2009 | |
|------------|--------------|----------|-----------------|----------|
| | Carrying | | Carrying | |
| | Fair Value | Value | Fair Value | Value |
| Total Debt | \$2,769 | \$ 2,582 | \$3,724 | \$ 3,477 |

For all of our other financial instruments, the estimated fair value approximated the carrying value at July 3, 2010, and October 3, 2009. The carrying value of our other financial instruments, not otherwise disclosed herein, included notes receivable, which approximated fair value at July 3, 2010, and October 3, 2009. Notes receivable were recorded in Other Current Assets in the Consolidated Condensed Balance Sheets and totaled \$46 million at July 3, 2010, and were recorded in Other Assets at October 3, 2009, and totaled \$45 million. The fair values were determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

TYSON FOODS, INC.

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**

NOTE 12: CONTINGENCIES

Listed below are certain claims made against the Company and our subsidiaries. In our opinion, we have made appropriate and adequate reserves, accruals and disclosures where necessary, and believe the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if accruals and reserves are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations. We believe we have substantial defenses to the claims made and intend to vigorously defend these cases.

In 2000, the Wage and Hour Division of the U.S. Department of Labor (DOL) conducted an industry-wide investigation of poultry producers, including us, to ascertain compliance with various wage and hour issues. As part of this investigation, the DOL inspected 14 of our processing facilities. On May 9, 2002, the DOL filed a civil complaint styled Elaine L. Chao (now Hilda L. Solis), Secretary of Labor, United States Department of Labor v. Tyson Foods, Inc. in the U.S. District Court for the Northern District of Alabama. The plaintiff alleged that we violated the overtime provisions of the federal Fair Labor Standards Act (“FLSA”) at our chicken processing facility in Blountsville, Alabama. Through discovery and trial, the Secretary of Labor sought to require us to compensate all hourly chicken processing employees for pre- and post-shift clothes changing, washing and related activities and for one of two unpaid 30-minute meal periods. The Secretary of Labor sought back wages for all employees at the Blountsville facility for a period of two years prior to the date of the filing of the complaint and an injunction against future violations at that facility and all other chicken processing facilities we operate. A jury trial began on February 2, 2009, and concluded with a mistrial on April 13, 2009, when the jury failed to reach a unanimous verdict. A second jury trial was held, beginning on August 25, 2009. The jury reached a verdict on November 4, 2009, and it determined that Blountsville employees performed work for which they were not compensated and awarded \$250,000 in damages for a nine-year period. The jury also determined that the Company’s recordkeeping for hours of work did not violate the FLSA. On June 3, 2010, the parties filed a joint motion with the court for approval of a consent judgment. Under the terms of the consent judgment, the Company will continue its current pay practices and, on an interim basis, provide 8 or 12 minutes of extra pay per shift to hourly processing line employees at non-union locations. Over the next two and one-half years, but no later than December 1, 2012, the Company will modify timekeeping practices at its poultry plants and certain prepared foods plants to pay hourly processing line employees punch-to-punch, or to “clock in” before they put on certain clothing items and “clock out” after the clothing items are taken off. Union locations affected by the consent judgment, if timely notifications are provided, are allowed to participate in the consent judgment after December 1, 2012. The court approved the joint motion, and the consent judgment became effective on June 8, 2010.

Several private lawsuits are pending against us alleging that we failed to compensate poultry plant employees for all hours worked, including overtime compensation, in violation of the FLSA. These lawsuits include DeAsencio v. Tyson Foods, Inc. (DeAsencio), filed on August 22, 2000, in the U.S. District Court for the Eastern District of Pennsylvania. This matter involves similar allegations that employees should be paid for the time it takes to engage in pre- and post-shift activities such as changing into and out of protective and sanitary clothing, obtaining clothing and walking to and from the changing area, work areas and break areas. They seek back wages, liquidated damages, pre- and post-judgment interest, and attorneys’ fees. Plaintiffs appealed a jury verdict and final judgment entered in our favor on June 22, 2006, in the U.S. District Court for the Eastern District of Pennsylvania. On September 7, 2007, the U.S. Court of Appeals for the Third Circuit reversed the jury verdict and remanded the case to the District Court for further proceedings. We sought rehearing en banc, which was denied by the Court of Appeals on October 5, 2007. The United States Supreme Court denied our petition for a writ of certiorari on June 9, 2008. The new trial date has not been set.

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The other private lawsuits referred to above are Sheila Ackles, et al. v. Tyson Foods, Inc. (N. Dist. Alabama, October 23, 2006); McCluster, et al. v. Tyson Foods, Inc. (M. Dist. Georgia, December 11, 2006); Dobbins, et al. v. Tyson Chicken, Inc., et al. (N.D. Alabama, December 21, 2006); Buchanan, et al. v. Tyson Chicken, Inc., et al. and Potter, et al. v. Tyson Chicken, Inc., et al. (N.D. Alabama, December 22, 2006); Jones, et al. v. Tyson Foods, Inc., et al., Walton, et al. v. Tyson Foods, Inc., et al. and Williams, et al. v. Tyson Foods, Inc., et al. (S.D. Mississippi, February 9, 2007); Balch, et al. v. Tyson Foods, Inc. (E.D. Oklahoma, March 1, 2007); Adams, et al. v. Tyson Foods, Inc. (W.D. Arkansas, March 2, 2007); Atkins, et al. v. Tyson Foods, Inc. (M.D. Georgia, March 5, 2007); Laney, et al. v. Tyson Foods, Inc. and Williams, et al. v. Tyson Foods, Inc. (M.D. Georgia, May 23, 2007). Similar to DeAsencio, each of these matters involves allegations that employees should be paid for the time it takes to engage in pre- and post-shift activities such as changing into and out of protective and sanitary clothing, obtaining clothing and walking to and from the changing area, work areas and break areas. The plaintiffs in each of these lawsuits seek or have sought to act as class representatives on behalf of all current and former employees who were allegedly not paid for time worked and seek back wages, liquidated damages, pre- and post-judgment interest, and attorneys' fees. On April 6, 2007, we filed a motion for transfer of the above named actions for coordinated pretrial proceedings before the Judicial Panel on Multidistrict Litigation, which was granted on August 17, 2007. These cases and five other cases subsequently filed involving the same allegations, Armstrong, et al. v. Tyson Foods, Inc. (W.D. Tennessee, January 30, 2008); Maldonado, et al. v. Tyson Foods, Inc. (E.D. Tennessee, January 31, 2008); White, et al. v. Tyson Foods, Inc. (E.D. Texas, February 1, 2008); Meyer, et al. v. Tyson Foods, Inc. (W.D. Missouri, February 2, 2008); and Leak, et al. v. Tyson Foods, Inc. (W.D. North Carolina, February 6, 2008), were transferred to the U.S. District Court in the Middle District of Georgia, In re: Tyson Foods, Inc., Fair Labor Standards Act Litigation ("MDL Proceedings"). On January 2, 2008, the Court issued a Joint Scheduling and Case Management Order. This order granted Conditional Class Certification and called for notice to be given to potential putative class members via a third party administrator. The potential class members had until April 18, 2008, to "opt-in" to the class. Approximately 13,800 employees and former employees filed their consents to "opt-in" to the class. On October 15, 2008, the Court denied the plaintiffs' motion for equitable tolling, which, if granted, would have extended the time period in which the plaintiffs could have sought damages. However, in addition to the consents already obtained, the Court allowed the plaintiffs to obtain corrected and reaffirmed opt-in consents that were previously filed in the matter of M.H. Fox, et al. v. Tyson Foods, Inc. (N.D. Alabama, June 22, 1999). The deadline for filing these consents was December 31, 2008, and according to the third party administrator, approximately 4,000 reaffirmed consents were filed, some or all of which may be in addition to the approximately 13,800 consents filed previously. The parties have completed discovery at eight of our facilities and our corporate headquarters in Springdale, Arkansas. In July 2009 we filed class decertification motions for the eight facilities involved in discovery. We also filed Motions for Partial Summary Judgment for these eight facilities. Oral arguments for these motions occurred on February 3, 2010, and, on March 16, 2010, the Court granted partial summary judgment with respect to two unionized facilities and denied the remaining motions. The Court concluded that the activities at these two facilities met the definition of "clothes changing" under Section 203(o) of the FLSA and that the time engaged in pre- and post-shift donning and doffing is not compensable. The Court did not rule on whether Section 203(o) activity could begin the continuous work day, thereby making all walking, sanitizing and washing time after that activity compensable. We then filed a motion for certification of a permissive appeal on whether Section 203(o) activity can start the continuous workday and whether washing required clothing items is covered by Section 203(o). On April 23, 2010, the Court granted us permission to appeal these issues to the Eleventh Circuit Court of Appeals. The Court also retained jurisdiction with respect to the eight facilities while staying proceedings with respect to seven. It then scheduled trial in Williams, et al. v. Tyson Foods, Inc. (M.D. Georgia, May 23, 2007), which involves our Dawson, Georgia facility, for October 12, 2010. On April 16, 2010, the Court lifted a previously entered stay of discovery with respect to our remaining 32 facilities subject to the MDL Proceedings and ordered the parties to meet, confer, and report to the Court any discovery agreements and disputed issues within 45 days. On June 7, 2010, the Court issued a scheduling order which set the close of discovery for the remaining 32 facilities for May 31, 2012.

We have pending eleven separate wage and hour actions involving TFM's plants located in Lexington, Nebraska (Lopez, et al. v. Tyson Foods, Inc., D. Nebraska, June 30, 2006), Garden City and Emporia, Kansas (Garcia, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., D. Kansas, May 15, 2006), Storm Lake, Iowa (Bouaphakeo (f/k/a Sharp), et al. v. Tyson Foods, Inc., N.D. Iowa, February 6, 2007), Columbus Junction, Iowa (Robinson, et al. v. Tyson Foods, Inc., d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, September 12, 2007), Joslin, Illinois (Murray, et al. v. Tyson Foods, Inc., C.D. Illinois, January 2, 2008), Dakota City, Nebraska (Gomez, et al. v. Tyson Foods, Inc., D. Nebraska, January 16, 2008), Madison, Nebraska (Acosta, et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., D. Nebraska, February 29, 2008), Perry and Waterloo, Iowa (Edwards, et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, March 20, 2008); Council Bluffs, Iowa (Maxwell (f/k/a Salazar), et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, April 29, 2008); Logansport, Indiana (Carter, et al. v. Tyson Foods, Inc. and Tyson Fresh Meats, Inc., N.D. Indiana, April 29, 2008); and Goodlettsville, Tennessee (Abadeer v. Tyson Foods, Inc., and Tyson Fresh Meats, Inc., M.D. Tennessee, February 6, 2009). The actions allege we failed to pay employees for all hours worked, including overtime compensation for the time it takes to change into protective work uniforms, safety equipment and other sanitary and protective clothing worn by employees, and for walking to and from the changing area, work areas and break areas in violation of the FLSA and analogous state laws. The plaintiffs seek back wages, liquidated damages, pre- and post-judgment interest, attorneys' fees and costs. Each case is proceeding in its jurisdiction. Trials have been scheduled in the Abadeer and Bouaphakeo cases for October 12, 2010, and November 1, 2010, respectively.

On June 19, 2005, the Attorney General and the Secretary of the Environment of the State of Oklahoma filed a complaint in the U.S. District Court for the Northern District of Oklahoma against us, three of our subsidiaries and six other poultry integrators. This complaint was subsequently amended. As amended, the complaint asserts a number of state and federal causes of action including, but not limited to, counts

under Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), Resource Conservation and Recovery Act (“RCRA”), and state-law public nuisance theories. The amended complaint asserts that defendants and certain contract growers who are not named in the amended complaint polluted the surface waters, groundwater and associated drinking water supplies of the Illinois River Watershed (“IRW”) through the land application of poultry litter. Oklahoma asserts that this alleged pollution has also caused extensive injury to the environment (including soils and sediments) of the IRW and that the defendants have been unjustly enriched. Oklahoma’s claims cover the entire IRW, which encompasses more than one million acres of land and the natural resources (including lakes and waterways) contained therein. Oklahoma seeks wide-ranging relief, including injunctive relief, compensatory damages in excess of \$800 million, an unspecified amount in punitive damages and attorneys’ fees. We and the other defendants have denied liability, asserted various defenses, and filed a third-party complaint that asserts claims against other persons and entities whose activities may have contributed to the pollution alleged in the amended complaint. The district court has stayed proceedings on the third party complaint pending resolution of Oklahoma’s claims against the defendants. On October 31, 2008, the defendants filed a motion to dismiss for failure to join the Cherokee Nation as a required party or, in the alternative, for judgment as a matter of law based on the plaintiffs’ lack of standing. This motion was granted in part and denied in part on July 22, 2009. In its ruling, the district court dismissed Oklahoma’s claims for cost recovery and for natural resources damages under CERCLA and for unjust enrichment under Oklahoma common law. This ruling also narrowed the scope of Oklahoma’s remaining claims by dismissing all damage claims under its causes of action for Oklahoma common law nuisance, federal common law nuisance, and Oklahoma common law trespass, leaving only its claims for injunctive relief for trial. On August 18, 2009, the Court granted partial summary judgment in favor of the defendants on Oklahoma’s claims for violations of the Oklahoma Registered Poultry Feeding Operations Act. Oklahoma later voluntarily dismissed the remainder of this claim. On September 2, 2009, the Cherokee Nation filed a motion to intervene in the lawsuit. Their motion to intervene was denied on September 15, 2009, and the Cherokee Nation filed a notice of appeal of that ruling in the Tenth Circuit Court of Appeals on September 17, 2009. A non-jury trial of the case began on September 24, 2009. At the close of Oklahoma’s case-in-chief, the Court granted the defendants’ motions to dismiss claims based on RCRA, nuisance per se, and health risks related to bacteria. The defense rested its case on January 13, 2010, and closing arguments were held on February 11, 2010. The parties are awaiting the Court’s ruling. On March 30, 2010, the Court of Appeals ordered the parties to submit briefs addressing whether the Cherokee Nation’s appeal is moot due to the completion of the underlying trial. Oral arguments for the Cherokee Nation’s appeal occurred on May 5, 2010, and the parties are awaiting the Court of Appeals’ rulings as to these issues.

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In 2008, the following 12 separate lawsuits were filed, with the various plaintiffs alleging that we falsely advertised chicken products as “raised without antibiotics” in violation of various state consumer protection statutes (Cutsail v. Tyson, D. Maryland, June 23, 2008; Cohen v. Tyson, E.D. Arkansas, April 25, 2008; Wright v. Tyson, D. New Jersey, June 18, 2008; Wilson v. Tyson, E.D. Arkansas, June 18, 2008; Gupton v. Tyson, E.D. Arkansas, July 2, 2008; Kranish v. Tyson, D. Maryland, June 20, 2008; Zukowsky v. Tyson, E.D. Arkansas, June 30, 2008; Brickerd v. Tyson, D. Maryland, July 9, 2008; Court v. Tyson, W.D. Washington, June 19, 2008; Epstein v. Tyson, N.D. California, June 4, 2008; Johnson v. Tyson, D. Idaho, July 16, 2008; and Mize v. Tyson, W.D. Arkansas, June 30, 2008). Plaintiffs in each of these cases seek to pursue claims on behalf of themselves and proposed classes of other similarly situated consumers. Plaintiffs in each of these cases seek compensatory and punitive damages in an unspecified amount in excess of \$5 million. Plaintiffs in two of these cases, Cutsail v. Tyson and Cohen v. Tyson, petitioned the Judicial Panel on Multidistrict Litigation to transfer all of these actions to a single court for consolidated or coordinated pretrial proceedings pursuant to 28 U.S.C. 1407. On October 17, 2008, the Judicial Panel granted the multidistrict litigation petitions and transferred the pending cases to the District of Maryland. Subsequently, plaintiffs Gupton, Latimer and Mize filed voluntary dismissals of their claims. These three cases were subsequently dismissed. The parties have now reached a settlement of the matter. Under the terms of the settlement, we will pay up to \$5 million in class claims, notice and administrative costs, and Court-approved incentive awards to the named plaintiffs. If the sum of valid class claims, notice and administration costs, and incentive awards is less than \$5 million, we will make in-kind donations of our products to food banks in such amounts to bring our total payout to \$5 million (excluding attorneys’ fees and expenses). The settlement agreement also provided that plaintiffs’ counsel may apply to the Court for an award of attorneys’ fees and actual expenses in a total amount not to exceed \$3 million. On January 15, 2010, the Court granted preliminary approval of the settlement agreement. Notice of the proposed settlement was published, and a final fairness hearing occurred on May 7, 2010. On June 2, 2010, the Court entered a final judgment and order approving the settlement agreement, including an award of \$3 million for the plaintiffs’ attorneys’ fees and \$20,000 as an incentive award to be shared by the named plaintiffs. Three class members have filed notices of appeal of this final judgment and order.

In September 2009, the National Water Commission (“CONAGUA”), an agency of the Mexican government’s Ministry of the Environment and Natural Resources, sent an observation letter to our Mexican subsidiary, Tyson de Mexico (“TdM”), with respect to TdM’s water usage at certain water wells that are part of its poultry production operations. This letter was in response to TdM’s previous submission to CONAGUA of requested information relating to water usage from these wells from 2004 to 2007. In the observation letter, which contains an initial finding of facts, CONAGUA alleges that TdM may have failed to (i) report accurate water volume usage, (ii) install measuring equipment, (iii) provide evidence of water use exemptions, (iv) pay for applicable usage, and (v) properly measure water volume, all as required under water deeds held by TdM. On October 15, 2009, TdM responded to CONAGUA, denying the allegations as presented. On April 13, 2010, the regional CONAGUA office delivered its final determinations to TdM on this matter and claimed that TdM owed the agency approximately 55.9 million pesos (approximately US\$4.6 million) for certain water usage during the period in question. TdM has appealed the regional office’s final determinations to the administrative courts of CONAGUA in Mexico City.

On May 8, 2008, a lawsuit was filed against the Company and two of our employees in the District Court of McCurtain County, Oklahoma styled *Armstrong, et al. v. Tyson Foods, Inc., et al.* (the “Armstrong Case”). The lawsuit was brought by a group of 52 poultry growers who allege that certain of our live production practices in Oklahoma constitute fraudulent inducement, fraud, unjust enrichment, negligence, gross negligence, unconscionability, violations of the Oklahoma Business Sales Act, Deceptive Trade Practice violations, violations of the Consumer Protection Act, and conversion, as well as other theories of recovery. The plaintiffs sought damages in an unspecified amount. On October 30, 2009, 20 additional growers represented by the same attorney filed a lawsuit against us in the same court asserting the same or similar claims, which is styled *Clardy, et al. v. Tyson Foods, Inc., et al.* (the “Clardy Case”). In both of these cases we have denied all allegations of wrongdoing. In June 2009, the plaintiffs in the Armstrong case requested an expedited trial date for a smaller group of plaintiffs they claimed were facing imminent financial peril. The Court ultimately severed a group of 10 plaintiffs from the Armstrong Case, and a trial began on March 15, 2010. There were numerous irregularities and rulings during the trial which we believe to have been legally erroneous and highly prejudicial to our right to a fair trial. On April 1, 2010, the jury returned a verdict against us and one of our employees, and on April 2, 2010, the jury returned a punitive damages verdict against us. After a dispute caused by inconsistencies between the multiple verdict forms completed by the jury and apparent confusion by the jury as to how to complete those verdict forms, the Court entered a final judgment in the amount of \$8,655,735. The Company filed post-trial motions challenging the verdict. If those motions are denied by the Court, an appeal will be prosecuted. A trial was scheduled for June 21, 2010, for eight of the remaining Armstrong plaintiffs, but that trial date was cancelled because the judge who presided over the first trial disqualified from the cases. The Oklahoma Supreme Court has appointed a new judge to the cases. No other trials are presently scheduled. If necessary, we will seek a stay of all future trials of the claims of the plaintiffs in the Armstrong Case and the Clardy Case pending the outcome of the appeal of the first trial. We believe numerous and substantial legal errors were made by the Court during the first trial and that a review of and guidance on these issues by the new judge or the appellate court could have a substantial impact on the outcome of future trials in the Armstrong Case and the Clardy Case.

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NOTE 13: INCOME TAXES

The effective tax rate was 38.8% and 36.7% for the third quarter and nine months of fiscal 2010, respectively. These rates were computed based upon the estimated annual effective tax rate. The effective tax rate for the third quarter and nine months of fiscal 2010 was impacted by such items as state income taxes, losses in foreign jurisdictions and related valuation allowances, the domestic production deduction and general business credits. Additionally, the effective tax rate for the nine months of fiscal 2010 was impacted by adjustments to uncertain tax positions due to tax audit resolutions and statute expirations.

The effective tax rate for continuing operations was 36.1% and 31.2% for the third quarter and nine months of fiscal 2009, respectively. Accounting guidance requires interim period taxes be calculated using the estimated annual effective tax rate, unless the estimated annual effective tax rate cannot be reliably estimated. During fiscal 2009, we experienced rapidly changing operating conditions which resulted in a large range in the estimate of the annual effective tax rate. Consequently, beginning in the second quarter of fiscal 2009, we switched from estimating interim period taxes on the annual method to the year-to-date method for fiscal 2009 interim periods.

Unrecognized tax benefits were \$219 million and \$233 million at July 3, 2010, and October 3, 2009, respectively. The amount of unrecognized tax benefits, if recognized, that would impact our effective tax rate was \$147 million and \$104 million at July 3, 2010, and October 3, 2009, respectively. This increase is primarily the result of the first quarter adoption of new accounting guidance related to business combinations.

We classify interest and penalties on unrecognized tax benefits as income tax expense. At July 3, 2010, and October 3, 2009, before tax benefits, we had \$77 million and \$71 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

We are subject to income tax examinations for U.S. federal income taxes for fiscal years 1998 through 2009, and for foreign, state and local income taxes for fiscal years 2002 through 2009. Within the next twelve months, tax audit resolutions could reduce unrecognized tax benefits either because tax positions are sustained on audit or because we agree to their disallowance; however, the range of the possible change cannot be reasonably estimated at this time.

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NOTE 14: EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share (in millions, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------------|-------------------|------------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Numerator: | | | | |
| Income (loss) from continuing operations | \$ 242 | \$ 123 | \$ 557 | \$ (92) |
| Less: Net loss attributable to noncontrolling interest | (6) | (1) | (10) | (3) |
| Income (loss) from continuing operations attributable to Tyson | 248 | 124 | 567 | (89) |
| Less Dividends: | | | | |
| Class A (\$0.040/share) | 12 | 12 | 37 | 37 |
| Class B (\$0.036/share) | 3 | 3 | 8 | 8 |
| Undistributed earnings (losses) | <u>\$ 233</u> | <u>\$ 109</u> | <u>\$ 522</u> | <u>\$ (134)</u> |
| Class A undistributed earnings (losses) | \$ 193 | \$ 90 | \$ 432 | \$ (111) |
| Class B undistributed earnings (losses) | 40 | 19 | 90 | (23) |
| Total undistributed earnings (losses) | <u>\$ 233</u> | <u>\$ 109</u> | <u>\$ 522</u> | <u>\$ (134)</u> |
| Denominator: | | | | |
| Denominator for basic earnings (loss) per share: | | | | |
| Class A weighted average shares | 304 | 302 | 303 | 303 |
| Class B weighted average shares, and shares under the if-converted method for diluted earnings per share | 70 | 70 | 70 | 70 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock | 6 | 6 | 5 | — |
| Convertible 2013 notes | 2 | — | 1 | — |
| Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions | <u>382</u> | <u>378</u> | <u>379</u> | <u>373</u> |
| Earnings (Loss) Per Share from Continuing Operations | | | | |
| Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.68 | \$ 0.34 | \$ 1.55 | \$ (0.24) |
| Class B Basic | \$ 0.61 | \$ 0.30 | \$ 1.39 | \$ (0.22) |
| Diluted | <u>\$ 0.65</u> | <u>\$ 0.33</u> | <u>\$ 1.49</u> | <u>\$ (0.24)</u> |
| Net Income (Loss) Per Share Attributable to Tyson: | | | | |
| Class A Basic | \$ 0.68 | \$ 0.36 | \$ 1.55 | \$ (0.24) |
| Class B Basic | \$ 0.61 | \$ 0.32 | \$ 1.39 | \$ (0.22) |
| Diluted | <u>\$ 0.65</u> | <u>\$ 0.35</u> | <u>\$ 1.49</u> | <u>\$ (0.24)</u> |

Approximately 1 million and 6 million of our stock-based compensation shares were antidilutive for the three and nine months ended July 3, 2010, respectively, and approximately 15 million and 25 million of our stock-based compensation shares were antidilutive for the three and nine months ended June 27, 2009, respectively. These shares were not included in the dilutive earnings per share calculation.

We have two classes of capital stock, Class A stock and Class B stock. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of cash dividends paid to holders of Class B stock cannot exceed 90% of the cash dividends paid to holders of Class A stock.

We allocate undistributed earnings (losses) based upon a 1 to 0.9 ratio per share to Class A stock and Class B stock, respectively. We allocate undistributed earnings (losses) based on this ratio due to historical dividend patterns, voting control of Class B stockholders and contractual limitations of dividends to Class B stock.

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NOTE 15: COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows (in millions):

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Net income (loss) | \$ 242 | \$ 130 | \$ 557 | \$ (93) |
| Other comprehensive income (loss), net of tax: | | | | |
| Net hedging unrealized gain (loss) | 1 | 2 | (2) | (30) |
| Net hedging unrealized loss reclassified to earnings | 2 | 13 | 2 | 36 |
| Unrealized gain (loss) on investments | (2) | 7 | (4) | 3 |
| Unrealized loss on investments reclassified to other income | — | — | — | 4 |
| Currency translation adjustment | (11) | 40 | 1 | (54) |
| Currency translation adjustment reclassified to loss on discontinued operations | — | (2) | — | (39) |
| Postretirement benefits reserve adjustments | — | — | — | (5) |
| Total comprehensive income (loss) | <u>232</u> | <u>190</u> | <u>554</u> | <u>(178)</u> |
| Comprehensive loss attributable to noncontrolling interest | <u>(6)</u> | <u>(1)</u> | <u>(10)</u> | <u>(3)</u> |
| Total comprehensive income (loss) attributable to Tyson | <u>\$ 238</u> | <u>\$ 191</u> | <u>\$ 564</u> | <u>\$ (175)</u> |

The related tax effects allocated to the components of comprehensive income are as follows (in millions):

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Income tax expense (benefit): | | | | |
| Net hedging unrealized gain (loss) | \$ 1 | \$ 1 | \$ (1) | \$ (19) |
| Net hedging unrealized loss reclassified to earnings | 2 | 9 | 3 | 23 |
| Unrealized gain (loss) on investments | (3) | 3 | (3) | 2 |
| Unrealized loss on investments reclassified to other income | — | — | — | 1 |
| Currency translation adjustment | 1 | (2) | 1 | (2) |
| Postretirement benefits reserve adjustments | — | — | — | 5 |
| Total income tax expense | <u>\$ 1</u> | <u>\$ 11</u> | <u>\$ —</u> | <u>\$ 10</u> |

TYSON FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)
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NOTE 16: SEGMENT REPORTING

We operate in four segments: Chicken, Beef, Pork and Prepared Foods. We measure segment profit as operating income (loss).

Chicken: Chicken operations include breeding and raising chickens, as well as processing live chickens into fresh, frozen and value-added chicken products and logistics operations to move products through the supply chain. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets. It also includes sales from allied products and our chicken breeding stock subsidiary.

Beef: Beef operations include processing live fed cattle and fabricating dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. This segment also includes sales from allied products such as hides and variety meats, as well as logistics operations to move products through the supply chain. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets. Allied products are marketed to manufacturers of pharmaceuticals and technical products.

Pork: Pork operations include processing live market hogs and fabricating pork carcasses into primal and sub-primal cuts and case-ready products. This segment also includes our live swine group, related allied product processing activities and logistics operations to move products through the supply chain. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets. We sell allied products to pharmaceutical and technical products manufacturers, as well as a limited number of live swine to pork processors.

Prepared Foods: Prepared Foods operations include manufacturing and marketing frozen and refrigerated food products and logistics operations to move products through the supply chain. Products include pepperoni, bacon, beef and pork pizza toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes and processed meats. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets.

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Information on segments and a reconciliation to income (loss) from continuing operations before income taxes are as follows (in millions):

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|---------------------------|------------------------|--------------------------|-------------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Sales: | | | | |
| Chicken | \$ 2,527 | \$ 2,417 | \$ 7,443 | \$ 7,011 |
| Beef | 3,149 | 2,777 | 8,670 | 7,929 |
| Pork | 1,249 | 948 | 3,293 | 2,903 |
| Prepared Foods | 753 | 673 | 2,200 | 2,103 |
| Intersegment Sales | (240) | (153) | (617) | (456) |
| Total Sales | <u>\$ 7,438</u> | <u>\$ 6,662</u> | <u>\$ 20,989</u> | <u>\$ 19,490</u> |
| Operating Income (Loss): | | | | |
| Chicken | \$ 186(a) | \$ 143 | \$ 378(a) | \$ (189) |
| Beef | 176 | 66 | 421 | 94 |
| Pork | 125 | 28 | 256 | 112 |
| Prepared Foods | 22 | 40 | 114 | 94(c) |
| Other | (2) | (1) | (4) | (4) |
| Total Operating Income | <u>507</u> | <u>276</u> | <u>1,165</u> | <u>107</u> |
| Other Expense | <u>112(b)</u> | <u>84</u> | <u>285(b)</u> | <u>241</u> |
| Income (Loss) from Continuing Operations before Income Taxes | <u>\$ 395</u> | <u>\$ 192</u> | <u>\$ 880</u> | <u>\$ (134)</u> |

(a) Includes \$38 million gain from insurance proceeds.

(b) Includes \$12 million charge related to the impairment of an equity method investment and \$34 million and \$59 million, respectively, of charges related to losses on notes repurchased during the three and nine months ending July 3, 2010.

(c) Includes \$15 million charge related to the closing of our Ponca City, Oklahoma, processed meats plant.

The Beef segment had sales of \$48 million and \$44 million in the third quarter of fiscal years 2010 and 2009, respectively, and sales of \$125 million and \$114 million in the nine months of fiscal years 2010 and 2009, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of \$192 million and \$109 million in the third quarter of fiscal years 2010 and 2009, respectively, and sales of \$492 million and \$342 million in the nine months of fiscal years 2010 and 2009, respectively, from transactions with other operating segments of the Company. Beginning in the third quarter of fiscal 2010, we modified the presentation of our segment sales for all periods presented above to include the impact of intersegment sales, which were at market prices.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Description of the Company

We are one of the world's largest meat protein companies and the second-largest food production company in the *Fortune 500* with one of the most recognized brand names in the food industry. We produce, distribute and market chicken, beef, pork, prepared foods and related allied products. Our operations are conducted in four segments: Chicken, Beef, Pork and Prepared Foods. Some of the key factors influencing our business are customer demand for our products; the ability to maintain and grow relationships with customers and introduce new and innovative products to the marketplace; accessibility of international markets; market prices for our products; the cost of live cattle and hogs, raw materials and grain; and operating efficiencies of our facilities.

Overview

- General – All of our core businesses had increased operating results for the nine months ended July 3, 2010, as compared to the same period last year, as a result of improved internal performance and a better market environment. The following are a few of the key drivers:
 - We achieved margin management gains and operational efficiency improvements year-to-date compared to the prior year, which were the key drivers that led to the nearly \$1.1 billion improvement in operating income. Margin management improvements occurred in the areas of mix, export sales, price optimization and value-added products initiatives. The operational efficiencies occurred in the areas of yields, cost reduction, labor management, logistics cost optimization, capacity and live bird operations (including livability, feed conversion, and net to processing improvements).
 - Tyson and the meat industry in general have benefitted from improving domestic market conditions. For the first time in 40 years, industry forecasters predict a reduction in available protein in two consecutive years for 2009/2010. This is a factor of reduced protein production, fewer imports, increased exports and reduced freezer inventories. Poor industry results for 2008 and 2009 led to a reduction in industry capacity and a better balance between overall meat products' supply and demand. While the recent economic conditions have caused decreased demand at foodservice establishments, most of the lost demand has shifted to retailers as consumers are choosing to eat at home.
- As a result of improving domestic market conditions and our own operational efficiency and margin management improvements, our operating margins were 6.8% in the third quarter of fiscal 2010 (6.3% after removing \$38 million of insurance proceeds received during the quarter). This is the first time since the acquisition of IBP, inc. in 2001 that operating margins have exceeded 6%. The following is a summary of operating margins by segment:
 - Chicken – 7.4% (or 5.9% excluding \$38 million of insurance proceeds received)
 - Beef – 5.6%
 - Pork – 10.0%
 - Prepared Foods – 2.9%
- Debt and Liquidity – During the first nine months of fiscal 2010, we generated \$1.1 billion of operating cash flows. We used these cash flows, as well as restricted cash, to repurchase, retire or redeem \$923 million of senior notes. As a result, our total debt is under \$2.6 billion, the lowest level since the acquisition of IBP, inc. At July 3, 2010, we had \$1.7 billion of liquidity, which includes the availability under our credit facility and \$834 million of cash and cash equivalents.

| in millions, except per share data | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Net income (loss) attributable to Tyson | \$ 248 | \$ 131 | \$ 567 | \$ (90) |
| Net income (loss) attributable to Tyson – per diluted share | 0.65 | 0.35 | 1.49 | (0.24) |

Third quarter and nine months of fiscal 2010 – Net income attributable to Tyson included the following items:

- \$38 million gain from insurance proceeds;
- \$34 million and \$59 million in charges related to losses on notes repurchased during the third quarter and nine months, respectively; and
- \$12 million charge related to the impairment of an equity method investment.

Nine months of fiscal 2009 – Net loss attributable to Tyson included the following item:

- \$15 million charge related to the closing of our Ponca City, Oklahoma, processed meats plant.

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Outlook

Our operational improvements and lower interest expense will help us to finish fiscal 2010 strong and put us in a good position as we begin fiscal 2011. We expect overall protein production (beef, chicken, pork and turkey) to increase in fiscal 2011 compared to fiscal 2010. We also anticipate that export markets will improve in 2011. The following is a summary of the fiscal 2011 outlook for each of our segments:

- **Chicken** – While we expect chicken production to increase, domestic availability will depend on export volumes. Current U.S. crop conditions are favorable, however, because of volatility in the world grain markets, grain costs could be higher in fiscal 2011 compared to fiscal 2010. Additionally, we will continue to focus on making operational improvements to help maximize our margins.
- **Beef** – We expect to see a gradual reduction in cattle supplies of 1-2% in fiscal 2011; however, we do not expect a significant change in the fundamentals of our Beef business as it relates to the previous few quarters. We expect adequate supplies in the regions we operate our plants.
- **Pork** – We expect hog supplies in fiscal 2011 will be comparable to fiscal 2010 and we believe we will have adequate supplies in the regions in which we operate. We expect pork exports to remain strong in fiscal 2011.
- **Prepared Foods** – Based on analysts' estimates, raw material costs will likely increase in fiscal 2011, but the changes in our sales contracts moved us further away from long-term fixed price contracts toward formula or shorter-term pricing, which will better enable us to absorb rising raw material costs. However, there is a lag time for price increases to take effect, which makes it more difficult to absorb the rapidly rising raw material costs we experienced during the third quarter of fiscal 2010.

Through the first nine months of fiscal 2010, we used cash, restricted cash and cash flows from operations to reduce our debt by nearly \$900 million and to reinvest over \$400 million back into our business through capital expenditures. The following is a summary of the outlook for the balance of fiscal 2010 and full fiscal 2011:

- **Capital Expenditures** – We expect total capital expenditures for fiscal 2010 to be approximately \$600 million. While this is down from our previous estimate, the anticipated projects are still ongoing, but were not able to be completed in fiscal 2010 as previously expected. Our preliminary capital expenditures plan for fiscal 2011 is approximately \$700 million.
- **Interest Expense** – We expect net interest expense for fiscal 2010 to be approximately \$335 million, which includes the \$59 million of losses from note repurchases during the first nine months of fiscal 2010. Based on our current debt levels, we expect fiscal 2011 net interest expense will be approximately \$250 million, down \$85 million compared to fiscal 2010.
- **Debt** – We will continue to use our available cash to repurchase notes when available at attractive rates. We do not have any significant maturities of debt coming due over the next two years, as our 8.25% Notes due October 2011 balance was down to \$327 million at July 3, 2010, which we anticipate retiring with current cash on hand and cash flows from operations.

Summary of Results – Continuing Operations

Sales

| in millions | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|---------------|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Sales | \$ 7,438 | \$ 6,662 | \$ 20,989 | \$ 19,490 |
| Change in sales volume | 1.2% | | 1.7% | |
| Change in average sales price | 10.3% | | 5.9% | |
| Sales growth | 11.6% | | 7.7% | |

Third quarter – Fiscal 2010 vs Fiscal 2009

- **Average Sales Price** – Sales were positively impacted by higher average sales prices in the Beef, Pork and Prepared Foods segments, which accounted for the majority of the \$724 million increase. This was largely due to higher live and raw material costs. This was partially offset by lower average sales prices in the Chicken segment.
- **Sales Volume** – Sales volume was up slightly from the same period last year, which accounted for an increase of \$52 million. The increase was driven by Chicken segment volumes, primarily from a recent international acquisition and domestic customer demand, partially offset by decreased sales volume in our Beef segment.

Nine months – Fiscal 2010 vs Fiscal 2009

- **Average Sales Price** – Sales were positively impacted by higher average sales prices, which accounted for an increase of approximately \$1.1 billion. The Beef, Pork and Prepared Foods segments increased largely due to higher live and raw material costs, while the Chicken segment increase was largely due to the change in mix resulting from a reduction in rendered product volumes.
- **Sales Volume** – Sales were also positively impacted by higher sales volume, which accounted for an increase of approximately \$369 million. The increase was driven by Chicken segment volumes, primarily from a recent international acquisition and domestic customer demand, as well as an increase in the Beef and Prepared Foods segments. This was partially offset by decreased sales

volumes in the Pork segment.

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Cost of Sales

| <u>in millions</u> | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|--|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Cost of sales | \$ 6,686 | \$ 6,192 | \$ 19,144 | \$ 18,749 |
| Gross margin | \$ 752 | \$ 470 | \$ 1,845 | \$ 741 |
| Cost of sales as a percentage of sales | 89.9% | 92.9% | 91.2% | 96.2% |

Third quarter – Fiscal 2010 vs Fiscal 2009

- Cost of sales increased \$494 million. Higher cost per pound was the primary reason for the increase in cost of sales and included the following changes:
 - Increase in average live cattle and hog costs of approximately \$458 million.
 - Increase in incentive-based compensation of approximately \$26 million.

Nine months – Fiscal 2010 vs Fiscal 2009

- Cost of sales increased \$395 million. Higher sales volume increased cost of sales by \$355 million, as well as higher cost per pound which increased cost of sales by \$40 million.
 - Increase in average live cattle and hog costs of approximately \$357 million.
 - Increase due to net losses of \$53 million in the nine months of fiscal 2010, as compared to net gains of \$172 million in the nine months of fiscal 2009, from our commodity risk management activities related to forward futures contracts for live cattle and hogs, and excludes the impact from related physical purchase transactions which impact current and future period operating results.
 - Increase in incentive-based compensation of approximately \$63 million.
 - Decrease due to net losses of \$4 million in the nine months of fiscal 2010, as compared to net losses of \$248 million in the nine months of fiscal 2009, from our commodity risk management activities related to grain and energy purchases, and excludes the impact from related physical purchase transactions which impact current and future period operating results.
 - Decrease in grain costs in the Chicken segment of approximately \$80 million.

Selling, General and Administrative

| <u>in millions</u> | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Selling, general and administrative expense | \$ 245 | \$ 192 | \$ 680 | \$ 617 |
| As a percentage of sales | 3.3% | 2.9% | 3.2% | 3.2% |

Third quarter – Fiscal 2010 vs Fiscal 2009

- Increase of \$34 million related to incentive-based compensation.
- Increase of \$12 million related to the change in investment returns on company-owned life insurance, which is used to fund non-qualified retirement plans.

Nine months – Fiscal 2010 vs Fiscal 2009

- Increase of \$78 million related to incentive-based compensation.
- Decrease of \$9 million related to the change in investment returns on company-owned life insurance, which is used to fund non-qualified retirement plans.
- Decrease of \$9 million related to advertising and sales promotions.

Other Charges

| <u>in millions</u> | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|--------------------|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| | \$ — | \$ 2 | \$ — | \$ 17 |

Nine months of fiscal 2009:

- Included \$15 million charge related to the closing of our Ponca City, Oklahoma, processed meats plant.

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Interest Expense

| <u>in millions</u> | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|-----------------------------|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Cash interest expense | \$ 58 | \$ 76 | \$ 194 | \$ 196 |
| Losses on notes repurchased | 34 | 4 | 59 | 3 |
| Non-cash interest expense | 10 | 12 | 29 | 38 |
| Total Interest Expense | \$ 102 | \$ 92 | \$ 282 | \$ 237 |

Third quarter – Fiscal 2010 vs Fiscal 2009

- Cash interest expense includes interest expense related to the coupon rates for senior notes and commitment/letter of credit fees incurred on our revolving credit facilities. The decrease is due to lower average weekly indebtedness of approximately 20%, partially offset by an increase in the overall average borrowing rates.
- Losses on notes repurchased during the third quarter fiscal 2010 includes the amount paid exceeding the face value of the notes repurchased, which primarily includes the repurchases of the 8.25% Notes due October 2011 (2011 Notes) and the 7.85% Notes due April 2016 (2016 Notes).
- Non-cash interest expense primarily includes interest related to the amortization of debt issuance costs and discounts/premiums on note issuances. This includes debt issuance costs incurred on the new credit facility in March 2009 and the 10.5% Senior Notes due 2014 (2014 Notes) issued in March 2009, as well as the accretion of the debt discount on the 3.25% Convertible Senior Notes due 2013 (2013 Notes) and 2014 Notes.

Nine months – Fiscal 2010 vs Fiscal 2009

- Cash interest expense includes interest expense related to the coupon rates for senior notes and commitment/letter of credit fees incurred on our revolving credit facilities. The decrease is due to lower average weekly indebtedness of approximately 6%, partially offset by an increase in the overall average borrowing rates.
- Losses on notes repurchased during the nine months ended July 3, 2010, includes the amount paid exceeding the face value of the notes repurchased, which primarily includes the repurchases of the 2011 Notes and the 2016 Notes.
- Non-cash interest expense primarily includes interest related to the amortization of debt issuance costs and discounts/premiums on note issuances. This includes debt issuance costs incurred on the new credit facility in March 2009 and the 2014 Notes issued in March 2009, as well as the accretion of the debt discount on the 2013 Notes and 2014 Notes. Fiscal 2009 also includes expenses related to amendment fees paid in December 2008 on our then existing credit agreements.

Other (Income) Expense, net

| <u>in millions</u> | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|--------------------|---------------------------|----------------------|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| | \$ 14 | \$ (3) | \$ 14 | \$ 18 |

Third quarter and nine months of fiscal 2010:

- Includes \$12 million charge related to the impairment of an equity method investment.

Nine months of fiscal 2009:

- Includes \$19 million in foreign currency exchange loss.

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Effective Tax Rate

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| | 38.8% | 36.1% | 36.7% | 31.2% |

Third quarter of fiscal 2010 – The effective tax rate was impacted by:

- state income taxes;
- losses in foreign jurisdictions and related valuation allowances;
- the domestic production deduction; and
- general business credits.

Nine months of fiscal 2010 – The effective tax rate was impacted by:

- state income taxes;
- the domestic production deduction;
- losses in foreign jurisdictions and related valuation allowances;
- adjustments to uncertain tax positions due to tax audit resolutions and statute expirations; and
- general business credits.

Third quarter of fiscal 2009 – The effective tax rate was impacted by:

- state income taxes;
- general business credits;
- amounts related to company-owned life insurance; and
- foreign valuation allowances.

Nine months of fiscal 2009 – The effective tax rate was impacted by:

- tax planning in foreign jurisdictions;
- general business credits;
- amounts related to company-owned life insurance; and
- state and foreign valuation allowances.

Segment Results

We operate in four segments: Chicken, Beef, Pork and Prepared Foods. Beginning in the third quarter of fiscal 2010, we modified the presentation of our segment sales for all periods presented below to include the impact of intersegment sales.

| in millions | Sales | | | |
|--------------------|--------------------|---------------|-------------------|---------------|
| | Three Months Ended | | Nine Months Ended | |
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Chicken | \$ 2,527 | \$ 2,417 | \$ 7,443 | \$ 7,011 |
| Beef | 3,149 | 2,777 | 8,670 | 7,929 |
| Pork | 1,249 | 948 | 3,293 | 2,903 |
| Prepared Foods | 753 | 673 | 2,200 | 2,103 |
| Intersegment Sales | (240) | (153) | (617) | (456) |
| Total | \$ 7,438 | \$ 6,662 | \$ 20,989 | \$ 19,490 |

| in millions | Operating Income (Loss) | | | |
|----------------|-------------------------|---------------|-------------------|---------------|
| | Three Months Ended | | Nine Months Ended | |
| | July 3, 2010 | June 27, 2009 | July 3, 2010 | June 27, 2009 |
| Chicken | \$ 186 | \$ 143 | \$ 378 | \$ (189) |
| Beef | 176 | 66 | 421 | 94 |
| Pork | 125 | 28 | 256 | 112 |
| Prepared Foods | 22 | 40 | 114 | 94 |
| Other | (2) | (1) | (4) | (4) |
| Total | \$ 507 | \$ 276 | \$ 1,165 | \$ 107 |

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Chicken Segment Results

| in millions | Three Months Ended | | | Nine Months Ended | | |
|----------------------------|--------------------|---------------|--------|-------------------|---------------|--------|
| | July 3, 2010 | June 27, 2009 | Change | July 3, 2010 | June 27, 2009 | Change |
| Sales | \$ 2,527 | \$ 2,417 | \$ 110 | \$ 7,443 | \$ 7,011 | \$ 432 |
| Sales Volume Change | | | 8.1% | | | 2.9% |
| Average Sales Price Change | | | (3.2)% | | | 3.2% |
| Operating Income (Loss) | \$ 186 | \$ 143 | \$ 43 | \$ 378 | \$ (189) | \$ 567 |
| Operating Margin | 7.4% | 5.9% | | 5.1% | (2.7)% | |

Third quarter and nine months of fiscal 2010

- Includes \$38 million gain from insurance proceeds.

Third quarter and nine months – Fiscal 2010 vs Fiscal 2009

- Sales volume increase was due to an increase from an international acquisition, as well as an increase from domestic customer demand. For the nine months, the increase in average sales prices is primarily due to sales mix changes associated with the reduced sales volume of lower price per pound rendered products.
- Operating Income (Loss) –
 - Operational Improvements – Operating results were positively impacted by operational improvements, which included: yield, mix and live production performance improvements; additional processing flexibility; and reduced interplant product movement.
 - Derivative Activities – Operating results included the following amounts for commodity risk management activities related to grain and energy purchases. These amounts exclude the impact from related physical purchase transactions, which impact current and future period operating results.

| Income/(Loss) - in millions | Qtr | YTD |
|--|-------|--------|
| 2010 | \$(5) | \$ (4) |
| 2009 | 3 | (248) |
| Improvement/(Decline) in operating results | \$(8) | \$ 244 |

- Grain Costs – As compared to the same periods of fiscal 2009, operating results were positively impacted in the third quarter and nine months of fiscal 2010 by a decrease in grain costs of \$15 million and \$80 million, respectively.
- Operating results included an increase in incentive-based compensation.

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Beef Segment Results

| in millions | Three Months Ended | | | Nine Months Ended | | |
|----------------------------|--------------------|---------------|--------|-------------------|---------------|--------|
| | July 3, 2010 | June 27, 2009 | Change | July 3, 2010 | June 27, 2009 | Change |
| Sales | \$ 3,149 | \$ 2,777 | \$ 372 | \$ 8,670 | \$ 7,929 | \$ 741 |
| Sales Volume Change | | | (5.1)% | | | 2.0% |
| Average Sales Price Change | | | 19.5% | | | 7.3% |
| Operating Income | \$ 176 | \$ 66 | \$ 110 | \$ 421 | \$ 94 | \$ 327 |
| Operating Margin | 5.6% | 2.4% | | 4.9% | 1.2% | |

Third quarter and nine months – Fiscal 2010 vs Fiscal 2009

- Sales and Operating Income –
 - We increased our operating margins by maximizing our revenues relative to the rising live cattle markets, as well as improved our operating costs in the nine months. Operating results included an increase in incentive-based compensation.
 - Derivative Activities – Operating results included the following amounts for commodity risk management activities related to forward futures contracts for live cattle. These amounts exclude the impact from related physical sale and purchase transactions, which impact current and future period operating results.

| Income/(Loss) - in millions | Qtr | YTD |
|------------------------------|--------|---------|
| 2010 | \$ (9) | \$ (7) |
| 2009 | 7 | 97 |
| Decline in operating results | \$(16) | \$(104) |

Pork Segment Results

| in millions | Three Months Ended | | | Nine Months Ended | | |
|----------------------------|--------------------|---------------|--------|-------------------|---------------|--------|
| | July 3, 2010 | June 27, 2009 | Change | July 3, 2010 | June 27, 2009 | Change |
| Sales | \$ 1,249 | \$ 948 | \$ 301 | \$ 3,293 | \$ 2,903 | \$ 390 |
| Sales Volume Change | | | 0.1% | | | (0.8)% |
| Average Sales Price Change | | | 31.6% | | | 14.4% |
| Operating Income | \$ 125 | \$ 28 | \$ 97 | \$ 256 | \$ 112 | \$ 144 |
| Operating Margin | 10.0% | 3.0% | | 7.8% | 3.9% | |

Third quarter and nine months – Fiscal 2010 vs Fiscal 2009

- Sales and Operating Income –
 - We increased our operating margins by maximizing our revenues relative to the rising live hog markets. Operating results included an increase in incentive-based compensation.
 - Derivative Activities – Operating results included the following amounts for commodity risk management activities related to forward futures contracts for live hogs. These amounts exclude the impact from related physical sale and purchase transactions, which impact current and future period operating results.

| Income/(Loss) - in millions | Qtr | YTD |
|------------------------------|--------|--------|
| 2010 | \$— | \$(29) |
| 2009 | 11 | 47 |
| Decline in operating results | \$(11) | \$(76) |

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Prepared Foods Segment Results

| <u>in millions</u> | <u>Three Months Ended</u> | | | <u>Nine Months Ended</u> | | |
|----------------------------|---------------------------|----------------------|---------------|--------------------------|----------------------|---------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>Change</u> | <u>July 3, 2010</u> | <u>June 27, 2009</u> | <u>Change</u> |
| Sales | \$ 753 | \$ 673 | \$ 80 | \$ 2,200 | \$ 2,103 | \$ 97 |
| Sales Volume Change | | | 1.4% | | | 2.8% |
| Average Sales Price Change | | | 10.3% | | | 1.8% |
| Operating Income | \$ 22 | \$ 40 | \$ (18) | \$ 114 | \$ 94 | \$ 20 |
| Operating Margin | 2.9% | 5.9% | | 5.2% | 4.5% | |

Third quarter and nine months of fiscal 2009

- Includes \$15 million charge related to the closing of our Ponca City, Oklahoma, processed meats plant.

Third quarter and nine months – Fiscal 2010 vs Fiscal 2009

- Despite the increase in average sales prices and sales volume, operating income declined in the third quarter fiscal 2010 as compared to the same period last year due to an increase in raw material costs. Operating income was positively impacted in the first nine months of fiscal 2010 as compared to the same period last year due to an increase in sales volume and average sales prices, which was offset by the increase in raw material costs. In addition, we made several operational improvements in late fiscal 2009 that allow us to run our plants more efficiently. Operating results included an increase in incentive-based compensation. In the first nine months of fiscal 2010, we received \$8 million in insurance proceeds related to the flood damage at our Jefferson, Wisconsin, plant.

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LIQUIDITY AND CAPITAL RESOURCES

Our cash needs for working capital, capital expenditures and growth opportunities are expected to be met with current cash on hand, cash flows provided by operating activities, or short-term borrowings. Based on our current expectations, we believe our liquidity and capital resources will be sufficient to operate our business. However, we may take advantage of opportunities to generate additional liquidity or refinance existing debt through capital market transactions. The amount, nature and timing of any capital market transactions will depend on: our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

Cash Flows from Operating Activities

| <u>in millions</u> | <u>Nine Months Ended</u> | |
|---|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Net income (loss) | \$ 557 | \$ (93) |
| Non-cash items in net income (loss): | | |
| Depreciation and amortization | 372 | 383 |
| Deferred income taxes | (4) | (26) |
| Other, net | 116 | 97 |
| Changes in working capital | 67 | 323 |
| Net cash provided by operating activities | <u>\$ 1,108</u> | <u>\$ 684</u> |

Cash flows associated with changes in working capital for the nine months ended:

- **July 3, 2010** – Increased due to an increase in accrued salaries, wages and benefits, interest payable and the change in income tax receivable/payable balances, partially offset by higher inventory and accounts receivable balances.
- **June 27, 2009** – Increased due to lower inventory and accounts receivable balances, partially offset by lower trade accounts payable and the change in income tax receivable/payable balances.

Cash Flows from Investing Activities

| <u>in millions</u> | <u>Nine Months Ended</u> | |
|---|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Additions to property, plant and equipment | \$ (404) | \$ (248) |
| Change in restricted cash to be used for investing activities | 43 | (60) |
| Proceeds from purchases of marketable securities, net | (5) | 15 |
| Acquisitions, net of cash acquired | — | (71) |
| Proceeds from sale of discontinued operation | — | 75 |
| Other, net | 2 | (9) |
| Net cash used for investing activities | <u>\$ (364)</u> | <u>\$ (298)</u> |

- Additions to property, plant and equipment include acquiring new equipment, upgrading our facilities to maintain competitive standing and positioning us for future opportunities.
 - Capital spending for fiscal 2010 is expected to be approximately \$600 million, and includes:
 - approximately \$520 million on current core business and foreign capital spending; and
 - approximately \$80 million related to Dynamic Fuels LLC (Dynamic Fuels), most of which relates to the completion of Dynamic Fuels' first facility. Mechanical completion of the facility was achieved in July and commissioning and start-up activities have commenced. During the first nine months of fiscal 2010, we used the remaining \$43 million of our restricted cash for spending on this facility. During the first nine months of fiscal 2009, we used \$39 million of our restricted cash for spending on this facility.
- Acquisitions – In October 2008, we acquired three vertically integrated poultry companies in southern Brazil. The aggregate purchase price was \$67 million, which included \$17 million of mandatory deferred payments, of which \$4 million remains to be paid through 2011. In addition, we have \$16 million of contingent purchase price based on production volumes.

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Cash Flows from Financing Activities

| <u>in millions</u> | <u>Nine Months Ended</u> | |
|---|--------------------------|----------------------|
| | <u>July 3, 2010</u> | <u>June 27, 2009</u> |
| Payments on debt | \$ (993) | \$ (292) |
| Proceeds from borrowings of debt | 17 | 851 |
| Debt issuance costs | — | (60) |
| Change in restricted cash to be used for financing activities | 140 | (140) |
| Purchases of treasury shares | (42) | (11) |
| Dividends | (44) | (44) |
| Change in negative book cash balances | (25) | (119) |
| Other, net | 32 | 9 |
| Net cash provided by (used for) financing activities | <u>\$ (915)</u> | <u>\$ 194</u> |

- Payments on debt for the nine months ended July 3, 2010, included:
 - \$512 million of 2011 Notes;
 - \$218 million of 2016 Notes;
 - \$140 million of 7.95% Notes due February 2010 (2010 Notes) (using the restricted cash held in a blocked cash collateral account for the repurchase of these notes);
 - \$40 million of 7.0% Notes due May 2018; and
 - \$59 million related to the premiums on notes repurchased during the period.
- Payments on debt for the nine months ended June 27, 2009, included:
 - \$161 million of 2011 Notes;
 - \$94 million of 2010 Notes (using the restricted cash held in a blocked cash collateral account for the repurchase of these notes); and
 - \$23 million of 2016 Notes.
- Proceeds from borrowings of debt for the nine months ended June 27, 2009, included:
 - In March 2009, we issued \$810 million of 2014 Notes. After the original issue discount of \$59 million, based on an issue price of 92.756% of face value, we received net proceeds of \$751 million. We used the net proceeds towards the repayment of our borrowings under the accounts receivable securitization facility and for other general corporate purposes.
 - In October 2008, Dynamic Fuels received \$100 million in proceeds from the sale of Gulf Opportunity Zone tax-exempt bonds made available by the Federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These floating rate bonds are due October 1, 2033.
- In conjunction with the entry into our credit facility and the issuance of the 2014 Notes, we paid \$48 million for debt issuance costs during the nine months ended June 27, 2009.

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Liquidity

in millions

| | <u>Commitments Expiration Date</u> | <u>Facility Amount</u> | <u>Borrowing Base Adjustment</u> | <u>Outstanding Letters of Credit (no draw downs)</u> | <u>Amount Borrowed</u> | <u>Amount Available</u> |
|---------------------------|--|----------------------------|--|--|----------------------------|-----------------------------|
| Cash and cash equivalents | | | | | | \$ 834 |
| Revolving credit facility | March 2012 | \$1,000 | \$ — | \$ (172) | \$ — | \$ 828 |
| Total liquidity | | | | | | <u>\$ 1,662</u> |

- The revolving credit facility supports our short-term funding needs and letters of credit. Letters of credit are issued primarily in support of workers' compensation insurance programs, derivative activities and Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds.
 - Borrowing Base Adjustment – Availability under this facility, up to \$1.0 billion, is based on a percentage of certain eligible accounts receivable and eligible inventory and is reduced by certain reserves. At July 3, 2010, the entire \$1.0 billion was eligible for borrowing and issuing letters of credit.
- Our 2013 Notes may be converted early during any fiscal quarter in the event our Class A stock trades at or above \$21.96 for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. In this event, the note holders may require us to pay outstanding principal in cash, which totaled \$458 million at July 3, 2010. Any conversion premium would be paid in shares of Class A common stock. The conditions for early conversion were not met in our third fiscal quarter of fiscal 2010, and thus, the notes may not be converted in our fourth quarter fiscal 2010. Should the conditions for early conversion be satisfied in future quarters, and the holders exercised their early conversion option, we would use current cash on hand and cash flow from operations for principal payments.
- At July 3, 2010, we had \$327 million of 2011 Notes outstanding. We plan presently to use current cash on hand and cash flows from operations for payment on the remaining 2011 Notes due in October 2011.
- Our current ratio was 2.02 to 1 and 2.20 to 1 at July 3, 2010, and October 3, 2009, respectively.

Deterioration of Credit and Capital Markets

Credit market conditions deteriorated rapidly during our fourth quarter of fiscal 2008 and have not returned to pre-2008 levels. Several major banks and financial institutions failed or were forced to seek assistance through distressed sales or emergency government measures. While not all-inclusive, the following summarizes some of the impacts to our business:

Credit Facility

Cash flows from operating activities and current cash on hand are our primary source of liquidity for funding debt service and capital expenditures. We also have a revolving credit facility, with a committed maximum capacity of \$1.0 billion, to provide additional liquidity for working capital needs, letters of credit, and as a source of financing for growth opportunities. As of July 3, 2010, we had outstanding letters of credit totaling \$172 million, none of which were drawn upon, which left \$828 million available for borrowing. Our revolving credit facility is funded by a syndicate of 19 banks, with commitments ranging from \$6 million to \$115 million per bank. The syndicate includes bank holding companies that are required to be adequately capitalized under federal bank regulatory agency requirements. If any of the banks in the syndicate are unable to perform on their commitments to fund the facility, our liquidity could be impaired, which could reduce our ability to fund working capital needs, support letters of credit or finance our growth opportunities.

Customers/Suppliers

The financial condition of some of our customers and suppliers could also be impaired by current market conditions. Although we have not experienced a material increase in customer bad debts or non-performance by suppliers, current market conditions increase the probability we could experience losses from customer or supplier defaults. Should current credit and capital market conditions result in a prolonged economic downturn in the United States and abroad, demand for protein products could be reduced, which could result in a reduction of sales, operating income and cash flows. In addition, we rely on livestock producers throughout the country to supply our live cattle and hogs. If these producers are adversely impacted by the current economic conditions and terminate their production, our livestock supply for processing could be significantly impacted.

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Additionally, we have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier's net tangible assets. Although we believe the aggregate maximum obligation under the program is unlikely to ever be reached, the potential maximum obligation at July 3, 2010, was approximately \$225 million. The total receivables under these programs were \$70 million and \$72 million at July 3, 2010, and October 3, 2009, respectively. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers' assets. After analyzing residual credit risks and general market conditions, we have recorded an allowance for these programs' estimated uncollectible receivables of \$22 million and \$20 million at July 3, 2010, and October 3, 2009, respectively.

Investments

The value of our investments in equity and debt securities, including our marketable debt securities, company-owned life insurance and pension and other postretirement plan assets, are impacted by market volatility. These instruments were recorded at fair value as of July 3, 2010. We did not have a significant change in fair value of these instruments during the third quarter and nine months of fiscal 2010.

We currently oversee two domestic and one foreign subsidiary non-contributory qualified defined benefit pension plans. All three pension plans are frozen to new participants and no additional benefits will accrue for participants. Based on our 2009 actuarial valuation, we anticipate contributions of \$2 million to these plans for fiscal 2010. We also have one domestic unfunded defined benefit plan. Based on our 2009 actuarial valuation, we anticipate contributions of \$2 million to this plan in fiscal 2010.

Financial Instruments

As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce our exposure to various market risks related to commodity purchases. Similar to the capital markets, the commodities markets have been volatile over the past few years. Grain and some energy prices remain volatile after reaching an all-time high during our fourth quarter of fiscal 2008 before falling sharply. We have implemented policies to reduce our earnings volatility associated with mark-to-market derivative activities, including more use of normal physical purchases and normal physical sales which are not required to be marked to market.

Insurance

We rely on insurers as a protection against liability claims, property damage and various other risks. Our primary insurers maintain an A.M. Best Financial Strength Rating of A or better. Nevertheless, we continue to monitor this situation as insurers have been and are expected to continue to be impacted by the current capital market environment.

Capitalization

The ratio of debt to capitalization is often used as a leverage measure. Our debt to capitalization ratio as of July 3, 2010, and October 3, 2009, is as follows:

| <u>in millions</u> | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|-------------------------------------|---------------------|------------------------|
| Senior Notes | \$ 2,345 | \$ 3,248 |
| Other indebtedness | 237 | 229 |
| Total Debt | \$ 2,582 | \$ 3,477 |
| Total Shareholders' Equity | \$ 4,956 | \$ 4,431 |
| Debt to Capitalization Ratio | 34.3% | 44.0% |

- At July 3, 2010, we had \$834 million of cash and cash equivalents.

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Credit Ratings

2016 Notes

On September 4, 2008, Standard & Poor's (S&P) downgraded the credit rating from "BBB-" to "BB." This downgrade increased the interest rate on the 2016 Notes from 6.85% to 7.35%, effective beginning with the six-month interest payment due October 1, 2008.

On November 13, 2008, Moody's Investors Services, Inc. (Moody's) downgraded the credit rating from "Ba1" to "Ba3." This downgrade increased the interest rate on the 2016 Notes from 7.35% to 7.85%, effective beginning with the six-month interest payment due April 1, 2009.

S&P currently rates the 2016 Notes "BB." Moody's currently rates this debt "Ba3." A further one-notch downgrade by either ratings agency would increase the interest rates on the 2016 Notes by an additional 0.25%.

A one-notch upgrade by either ratings agency would decrease the interest rates on the 2016 Notes by 0.25%.

Revolving Credit Facility

S&P's corporate credit rating for Tyson Foods, Inc. is "BB." Moody's corporate credit rating for Tyson Foods, Inc. is "Ba3." If S&P were to downgrade our corporate credit rating to "B+" or lower or Moody's were to downgrade our corporate credit rating to "B1" or lower, our letter of credit fees would increase by an additional 0.25%.

If S&P were to upgrade our corporate credit rating to "BB+" or higher and Moody's were to upgrade our corporate credit rating to "Ba1" or higher, our letter of credit fees would decrease by 0.25%.

Debt Covenants

Our revolving credit facility contains affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens and encumbrances; incur debt; merge, dissolve, liquidate or consolidate; make acquisitions and investments; dispose of or transfer assets; pay dividends or make other payments in respect of our capital stock; amend material documents; change the nature of our business; make certain payments of debt; engage in certain transactions with affiliates; and enter into sale/leaseback or hedging transactions, in each case, subject to certain qualifications and exceptions. If availability under this facility is less than the greater of 15% of the commitments and \$150 million, we will be required to maintain a minimum fixed charge coverage ratio.

Our 2014 Notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: incur additional debt and issue preferred stock; make certain investments and restricted payments; create liens; create restrictions on distributions from subsidiaries; engage in specified sales of assets and subsidiary stock; enter into transactions with affiliates; enter new lines of business; engage in consolidation, mergers and acquisitions; and engage in certain sale/leaseback transactions.

RECENTLY ADOPTED/ISSUED ACCOUNTING PRONOUNCEMENTS

Refer to the discussion of recently adopted/issued accounting pronouncements under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 1: Accounting Policies.

CRITICAL ACCOUNTING ESTIMATES

We consider accounting policies related to: contingent liabilities; marketing and advertising costs; accrued self insurance; impairment of long-lived assets; impairment of goodwill and other intangible assets; and income taxes to be critical policies. These policies are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended October 3, 2009.

In recent years, we expanded our international operations in Asia and South America through several small acquisitions. We have recently restructured our international operations including changes in management. Associated with the restructuring and new management, we are currently evaluating our future international business strategies, which depending on the strategies chosen, may impact the carrying values of certain of our international operations and assets.

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CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of future economic circumstances, industry conditions in domestic and international markets, our performance and financial results, including, without limitation, debt-levels, return on invested capital, value-added product growth, capital expenditures, tax rates, access to foreign markets and dividend policy. These forward-looking statements are subject to a number of factors and uncertainties that could cause our actual results and experiences to differ materially from anticipated results and expectations expressed in such forward-looking statements. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may cause actual results and experiences to differ from anticipated results and expectations expressed in such forward-looking statements are the following: (i) the effect of, or changes in, general economic conditions; (ii) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (iii) market conditions for finished products, including competition from other global and domestic food processors, supply and pricing of competing products and alternative proteins and demand for alternative proteins; (iv) successful rationalization of existing facilities and operating efficiencies of the facilities; (v) risks associated with our commodity purchasing activities; (vi) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vii) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an effect on livestock we own, the availability of livestock we purchase, consumer perception of certain protein products or our ability to access certain domestic and foreign markets; (viii) changes in availability and relative costs of labor and contract growers and our ability to maintain good relationships with employees, labor unions, contract growers and independent producers providing us livestock; (ix) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (x) changes in consumer preference and diets and our ability to identify and react to consumer trends; (xi) significant marketing plan changes by large customers or loss of one or more large customers; (xii) adverse results from litigation; (xiii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiv) compliance with and changes to regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws; (xv) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xvi) effectiveness of advertising and marketing programs; and (xvii) those factors listed under Item 1A. “Risk Factors” included in our Annual Report filed on Form 10-K for the year ended October 3, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Market risk relating to our operations results primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, we enter into various derivative transactions as described below. If a derivative instrument is accounted for as a hedge, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument’s change in fair value is recognized immediately. Additionally, we hold certain positions, primarily in grain and livestock futures that either do not meet the criteria for hedge accounting or are not designated as hedges. With the exception of normal purchases and normal sales that are expected to result in physical delivery, we record these positions at fair value, and the unrealized gains and losses are reported in earnings at each reporting date. Changes in market value of derivatives used in our risk management activities relating to forward sales contracts are recorded in sales. Changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales.

The sensitivity analyses presented below are the measures of potential losses of fair value resulting from hypothetical changes in market prices related to commodities. Sensitivity analyses do not consider the actions we may take to mitigate our exposure to changes, nor do they consider the effects such hypothetical adverse changes may have on overall economic activity. Actual changes in market prices may differ from hypothetical changes.

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Commodities Risk: We purchase certain commodities, such as grains and livestock, in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of July 3, 2010, and October 3, 2009, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge derivative financial instruments.

Effect of 10% change in fair value

| <u>in millions</u> | <u>July 3, 2010</u> | <u>October 3, 2009</u> |
|--------------------|---------------------|------------------------|
| Livestock: | | |
| Cattle | \$ 39 | \$ 20 |
| Hogs | 31 | 12 |
| Grain | 13 | 1 |

Interest Rate Risk: At July 3, 2010, we had variable rate debt of \$228 million with a weighted average interest rate of 4.3%. A hypothetical 10% increase in interest rates effective at July 3, 2010, and October 3, 2009, would have a minimal effect on interest expense.

Additionally, changes in interest rates impact the fair value of our fixed-rate debt. At July 3, 2010, we had fixed-rate debt of \$2.4 billion with a weighted average interest rate of 7.9%. Market risk for fixed-rate debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately \$52 million at July 3, 2010, and \$32 million at October 3, 2009. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

Foreign Currency Risk: We have foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates primarily as a result of certain receivable and payable balances. The primary currency exchanges we have exposure to are the Canadian dollar, the Chinese renminbi, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. We periodically enter into foreign exchange forward contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at July 3, 2010, and October 3, 2009, related to the foreign exchange forward contracts would have a \$15 million and \$15 million, respectively, impact on pretax income. In the future, we may enter into more foreign exchange forward contracts as a result of our international growth strategy.

Concentration of Credit Risk: Refer to our market risk disclosures set forth in the 2009 Annual Report filed on Form 10-K for a detailed discussion of quantitative and qualitative disclosures about concentration of credit risks, as these risk disclosures have not changed significantly from the 2009 Annual Report.

Item 4. Controls and Procedures

An evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the 1934 Act)). Based on that evaluation, management, including the CEO and CFO, has concluded that, as of July 3, 2010, our disclosure controls and procedures were effective.

In the third quarter ended July 3, 2010, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to the discussion of certain legal proceedings pending against us under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 12: Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and its subsidiaries.

On October 23, 2001, a putative class action lawsuit styled R. Lynn Thompson, et al. vs. Tyson Foods, Inc. was filed in the District Court for Mayes County, Oklahoma by three property owners on behalf of all owners of lakefront property on Grand Lake O' the Cherokees. Simmons Foods, Inc. and Peterson Farms, Inc. also are defendants. The plaintiffs allege the defendants' operations diminished the water quality in the lake thereby interfering with the plaintiffs' use and enjoyment of their properties. The plaintiffs sought injunctive relief and an unspecified amount of compensatory damages, punitive damages, attorneys' fees and costs. While the District Court certified a class, on October 4, 2005, the Court of Civil Appeals of the State of Oklahoma reversed, holding the plaintiffs' claims were not suitable for disposition as a class action. This decision was upheld by the Oklahoma Supreme Court and the case was remanded to the District Court with instructions that the matter proceed only on behalf of the three named plaintiffs. Plaintiffs seek injunctive relief, restitution and compensatory and punitive damages in an unspecified amount in excess of \$10,000. We and the other defendants have denied liability and asserted various defenses. The defendants have requested a trial date, but the court has not yet scheduled the matter for trial.

On January 9, 2003, we received a notice of liability letter from Union Pacific Railroad Company ("Union Pacific") relating to our alleged contributions of waste oil to the Double Eagle Refinery Superfund Site in Oklahoma City, Oklahoma. On August 22, 2006, the United States and the State of Oklahoma filed a lawsuit styled United States of America, et al. v. Union Pacific Railroad Co. in the United States District Court for the Western District of Oklahoma seeking more than \$22 million (the amount sought was subsequently increased to more than \$30 million) to remediate the Double Eagle site. Certain Tyson entities joined a "potentially responsible parties" group on October 31, 2006. A settlement between the "potentially responsible parties" group, the United States, and the State of Oklahoma was reached and the Tyson entities paid \$625,586 into escrow towards the settlement of the matter. In furtherance of finalizing the settlement, the U.S. Department of Justice filed a complaint styled United States of America, et al. v. Albert Investment Co., Inc. et al., and includes the "potentially responsible parties." A proposed Consent Decree addressing all alleged liability of the Tyson entities for the site was lodged on June 27, 2008. On October 10, 2008, Union Pacific initiated litigation to challenge the proposed Consent Decree by filing a motion to intervene, which the District Court denied. Union Pacific appealed this decision to the United States Court of Appeals for the Tenth Circuit. The "potentially responsible parties" group and other parties filed briefs in the Tenth Circuit, and oral arguments occurred on September 21, 2009. On November 10, 2009, the Tenth Circuit Court of Appeals reversed the District Court's decision, and Union Pacific was permitted to intervene in the litigation. On February 11, 2010, the District Court vacated the previous ruling denying Union Pacific's motion to intervene, ordered Union Pacific to file its complaint, and directed the parties to meet for determination of a schedule for conducting the litigation. On February 19, 2010, Union Pacific filed its complaint. The parties continue to work towards determination of the litigation schedule.

In November 2006, the Audit Committee of our Board of Directors engaged outside counsel to conduct a review of certain payments that had been made by one of our subsidiaries in Mexico, including payments to individuals employed by Mexican governmental bodies. The payments were discontinued in November 2006. Although the review process is ongoing, we believe the amount of these payments is immaterial, and we do not expect any material impact to our financial statements. We have contacted the Securities and Exchange Commission and the U.S. Department of Justice to inform them of our review and preliminary findings and are cooperating fully with these governmental authorities.

Since 2003, nine lawsuits have been brought against us and several other poultry companies by approximately 150 plaintiffs in Washington County, Arkansas Circuit Court (Green v. Tyson Foods, Inc., et al., Bible v. Tyson Foods, Inc., Beal v. Tyson Foods, Inc., et al., McWhorter v. Tyson Foods, Inc., et al., McConnell v. Tyson Foods, Inc., et al., Carroll v. Tyson Foods, Inc., et al., Belew v. Tyson Foods, Inc., et al., Gonzalez v. Tyson Foods, Inc., et al., and Rasco v. Tyson Foods, Inc., et al.) alleging that the land application of poultry litter caused arsenic and pathogenic mold and fungi contamination of the air, soil and water in and around Prairie Grove, Arkansas. In addition to the poultry company defendants, plaintiffs sued Alpharma, the manufacturer of a feed ingredient containing an organic arsenic compound that has been used in the broiler industry. Plaintiffs are seeking recovery for several types of personal injuries, including several forms of cancer. On August 2, 2006, the Court granted summary judgment in favor of Tyson and the other poultry company defendants in the first case to go to trial and denied summary judgment as to Alpharma. The case was tried against Alpharma and the jury returned a verdict in favor of Alpharma. Plaintiffs appealed the summary judgment in favor of the poultry company defendants and the Court stayed the remaining eight lawsuits pending the appeal. On May 8, 2008, the Arkansas Supreme Court reversed the summary judgment in favor of the poultry company defendants. The remanded trial in this case against us and the other poultry company defendants was held, and on May 14, 2009, the jury returned a verdict in favor of the defendants. On July 13, 2009, plaintiffs filed a notice of appeal to the Arkansas Supreme Court.

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Other Matters: We currently have approximately 117,000 team members and, at any time, have various employment practices matters outstanding. In the aggregate, these matters are significant to the Company, and we devote significant resources to managing employment issues. Additionally, we are subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on our consolidated results of operations or financial position.

Item 1A. Risk Factors

There have been no material changes to the risk factors listed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended October 3, 2009. These risk factors should be considered carefully with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known or we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information regarding our purchases of Class A stock during the periods indicated.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|------------------------------|---|------------------------------------|---|---|
| | April 4, 2010 to May 1, 2010 | 326,745 | \$ 19.73 | — |
| May 2, 2010 to June 5, 2010 | 136,431 | 18.52 | — | 22,474,439 |
| June 6, 2010 to July 3, 2010 | 114,975 | 18.01 | — | 22,474,439 |
| Total | <u>578,151(2)</u> | <u>\$ 19.10</u> | <u>—</u> | <u>22,474,439</u> |

- (1) On February 7, 2003, we announced our board of directors approved a plan to repurchase up to 25 million shares of Class A common stock from time to time in open market or privately negotiated transactions. The plan has no fixed or scheduled termination date.
- (2) We purchased 578,151 shares during the period that were not made pursuant to our previously announced stock repurchase plan, but were purchased to fund certain Company obligations under our equity compensation plans. These transactions included 552,909 shares purchased in open market transactions and 25,242 shares withheld to cover required tax withholdings on the vesting of restricted stock.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

None

Item 5. Other Information

Stock Option Grant Date Notice

The Compensation Committee (“Committee”) of the Company’s Board of Directors adopted a procedure in 2006 to grant non-qualified stock options on the fourth (4th) business day immediately following the date of our release of fiscal year-end earnings to the public, with such options to be granted at the closing price on the date of grant. At the May 6, 2010 meeting, the Committee approved resolutions stating earnings for fiscal 2010 are currently expected to be released November 22, 2010, and options shall be granted on the 4th business day after earnings are released, making the expected option grant date November 29, 2010. The resolutions further stated that if the earnings release date for fiscal 2010 is changed, the option grant date shall also be appropriately changed to fall on the 4th business day after the announcement of the earnings.

Annual Meeting Notice

Our 2011 Annual Meeting is currently scheduled for February 4, 2011. Accordingly, pursuant to our By-laws, for any business to be brought before the 2011 Annual Meeting by a proponent shareholder, written notice (in proper form as required by our By-laws) must be provided to R. Read Hudson, the Company’s Secretary, at 2200 Don Tyson Parkway, Springdale, Arkansas, 72762-6999, no later than November 21, 2010, and no earlier than October 27, 2010.

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Item 6. Exhibits

The following exhibits are filed with this report.

Exhibit

| <u>No.</u> | <u>Exhibit Description</u> |
|------------|---|
| 12.1 | Calculation of Ratio of Earnings to Fixed Charges |
| 31.1 | Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the quarter ended July 3, 2010, formatted in XBRL: (i) Condensed Consolidated Statements of Income for the three and nine months ended July 3, 2010, and June 27, 2009, (ii) Condensed Consolidated Balance Sheets at July 3, 2010, and October 3, 2009, (iii) Condensed Consolidated Statements of Cash Flows for the three and nine months ended July 3, 2010, and June 27, 2009, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TYSON FOODS, INC.

Date: August 9, 2010

/ s/ D ENNIS L EATHERBY

Dennis Leatherby
Executive Vice President and Chief
Financial Officer

Date: August 9, 2010

/ s/ C RAIG J. H ART

Craig J. Hart
Senior Vice President, Controller and
Chief Accounting Officer

Computation of Ratio of Earnings to Fixed Charges

| (dollars in millions) | Nine Months Ending July 3, 2010 | Fiscal Years | | | | |
|--|---|--------------|--------|--------|---------|--------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Earnings: | | | | | | |
| Income (loss) from continuing operations before income taxes | \$ 880 | \$(543) | \$ 154 | \$ 410 | \$(268) | \$ 441 |
| Add: Fixed charges | 337 | 388 | 272 | 278 | 325 | 277 |
| Add: Amortization of capitalized interest | 3 | 4 | 4 | 3 | 3 | 2 |
| Less: Capitalized interest | (8) | (3) | (3) | (2) | (8) | (6) |
| Total adjusted earnings | 1,212 | (154) | 427 | 689 | 52 | 714 |
| Fixed Charges: | | | | | | |
| Interest | 248 | 289 | 212 | 228 | 263 | 226 |
| Capitalized interest | 8 | 3 | 3 | 2 | 8 | 6 |
| Amortization of debt discount expense | 34 | 38 | 3 | 4 | 5 | 6 |
| Rentals at computed interest factor (1) | 47 | 58 | 54 | 44 | 49 | 39 |
| Total fixed charges | \$ 337 | \$ 388 | \$ 272 | \$ 278 | \$ 325 | \$ 277 |
| Ratio of Earnings to Fixed Charges | 3.60 | — | 1.57 | 2.48 | — | 2.58 |
| Insufficient Coverage | \$ — | \$ 542 | \$ — | \$ — | \$ 273 | \$ — |

(1) Amounts represent those portions of rent expense (one-third) that are reasonable approximations of interest costs.

CERTIFICATIONS

I, Donnie Smith, certify that:

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

Date: August 9, 2010

/s/ Donnie Smith

Donnie Smith
President and Chief Executive Officer

CERTIFICATIONS

I, Dennis Leatherby, certify that:

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

Date: August 9, 2010

/s/ Dennis Leatherby

Dennis Leatherby
Executive Vice President and Chief Financial Officer

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

In connection with the accompanying Quarterly Report of Tyson Foods, Inc. (the Company) on Form 10-Q for the period ending July 3, 2010, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Donnie Smith, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Donnie Smith

Donnie Smith

President and Chief Executive Officer

August 9, 2010

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

In connection with the accompanying Quarterly Report of Tyson Foods, Inc. (the Company) on Form 10-Q for the period ending July 3, 2010, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Dennis Leatherby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Dennis Leatherby

Dennis Leatherby
Executive Vice President and Chief Financial Officer

August 9, 2010