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# EDITED TRANSCRIPT

TSN - Q2 2012 Tyson Foods Inc Earnings Conference Call

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## OVERVIEW:

TSN reported 2Q12 sales of \$8.3b and EPS of \$0.44. Expects FY12 revenues to approximate \$34b.



## CORPORATE PARTICIPANTS

**Jon Kathol** *Tyson Foods Inc - VP, IR and Assistant Secretary*  
**Donnie Smith** *Tyson Foods Inc - President and CEO*  
**Jim Lochner** *Tyson Foods Inc - COO*  
**Dennis Leatherby** *Tyson Foods Inc - EVP and CFO*  
**Donnie King** *Tyson Foods Inc - Senior Group VP, Poultry and Prepared Foods*

## CONFERENCE CALL PARTICIPANTS

**Tim Ramey** *D.A. Davidson & Co. - Analyst*  
**Christine McCracken** *Cleveland Research Company - Analyst*  
**Heather Jones** *BB&T Capital Markets - Analyst*  
**Ken Goldman** *JPMorgan - Analyst*  
**Christina McGlone** *Deutsche Bank - Analyst*  
**Lindsay Drucker Mann** *Goldman Sachs - Analyst*  
**Akshay Jagdale** *KeyBanc Capital Markets - Analyst*  
**Farha Aslam** *Stephens Inc. - Analyst*  
**Robert Moskow** *Credit Suisse - Analyst*  
**Ken Zaslow** *BMO Capital Markets - Analyst*  
**Vincent Andrews** *Morgan Stanley - Analyst*  
**Ann Gurkin** *Davenport & Company - Analyst*

## PRESENTATION

### Operator

Welcome and thank you for standing by. At this time all participants have been placed on a listen-only mode until the question-and-answer session.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, please disconnect at this time. I would now like to turn the conference over to Mr. Jon Kathol, you may begin.

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**Jon Kathol** - *Tyson Foods Inc - VP, IR and Assistant Secretary*

Good morning, and thank you for joining us today for Tyson Foods conference call for the second-quarter of our 2012 fiscal year.

I need to remind you that some of the things we'll talk about today will include forward-looking statements. Those statements are based on our view of the world as we know it now, which could change. I encourage you to look at today's press release for a discussion of the risks that could affect our business. On today's call is Donnie Smith, President and Chief Executive Officer; Jim Lochner, Chief Operating Officer; and Dennis Leatherby, Chief Financial Officer. To ensure we get to as many of you as possible, please limit yourself to one question and one follow up, then get back in the queue if you have additional questions.

I'll now turn the call over to Donnie Smith.

**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Thanks, Jon. Good morning, and thanks for joining us today. Our second-quarter earnings were \$0.44 a share, compared to \$0.42 in the second quarter of 2011. Operating income was \$302 million, which was about flat to Q2 last year. Sales were up 3.4% versus Q2 a year ago at \$8.3 billion. The Pork segment was again above its normalized range with an 8.4% operating margin. Prepared Foods was near the top end of its normalized range with 5.5% margin. And our Chicken segment returned to normalized earnings sooner than expected with a 5% return on sales in the second quarter. Beef was challenging again this quarter, finishing around breakeven and Jim will speak to what happened there in his remarks.

We're now halfway through what will likely be our third consecutive year of solid earnings. The team is running the business well by focusing on our customers and executing on key performance indicators. We continue improving production efficiencies and management systems and we're getting a solid return on the capital we've invested in recent years. The work we've done internally is paying off and now we're beginning to build on that for the long-term success and growth.

Externally, key economic indicators continue to recover slowly. Consumers' views about current conditions improved in February and spending jumped to its highest levels in seven months. However, consumer confidence pulled back slightly in March. Consumers appear to be cautious about the economy but still hopeful. The national gasoline price average fell in April from its recent highs of about \$3.92 a gallon to the current average price of about \$3.75 a gallon. The energy department however still says fuel prices will peak in May at about \$4. Taking all these economic indicators into account, we're cautiously optimistic that the worst is over for the food service industry.

Food service dollar sales increased 6% in the first calendar quarter of 2012, versus the same quarter last year. Quick-service restaurant segment continued showing growth with consumer spending up 3%. Full service is showing dollar growth as well with spending up 10%. Again, this is sales growth driven primarily by inflation, not necessarily volume growth. Major restaurant chains are leading the recovery, although it likely continues to be at the expense of independents, which are still struggling.

NPD CREST reports also show a bright spot. Traffic to commercial restaurants increased by 1.7% in the Dec-Jan-Feb quarter. This was the strongest gain since the summer of 2007. The major chains realized 4% traffic growth, with growth coming from the QSR segment at 4%, and casual dining segment at 1%. Small chains were flat and independents continue to lose traffic, down 2%. Of course, Tyson partners with many of the chains that are growing faster than the industry average, providing us an opportunity to outperform the industry in terms of average volume growth. As Technomic pointed out recently, restaurant concepts in any segment of the industry can beat the odds on sales growth but they must offer value, convenience, a differentiation that makes them highly memorable, and alignment with what consumers are seeking in away-from-home dining. Our R&D resources have us well positioned to help our customers in those areas.

There's good news on many of the key menu categories. Morning meal traffic has been up, in servings of breakfast sandwiches that include sausage, bacon, chicken, and steak are growing. Chicken nuggets, chicken sandwiches, wings, meatball sandwiches, and bone-in chicken all saw growth during the period. We're expecting a significant amount of chicken features at food service this summer, especially in the major QSR chains. The retail channel for the 13-week period ending March 31, the Perishables Group reported the volume of fresh meat sold at retail down about 4% versus the same period a year ago, driven by higher retails. Beef pounds were down 9%, ground beef was down 7%, pork was down nearly 3%, and chicken was about flat. IRI data show that the bacon and frozen strips and cubes category grew during the 13-weeks ended March 18. But other frozen and refrigerated category volumes declined versus a year ago.

Tyson still commands the dominant share in the frozen breaded chicken category and we grew share in Q2 in the Individually Frozen segment. The Tyson brand is the market leader in value-added poultry and has a track record of driving consistent, profitable growth. Innovative new products solve problems and deliver values to consumers continue to be the key. Some of the new products we're introducing include Tyson Whole Grain Chicken Chunks and Tyson Stuffed Mini-Bread Bowls in the grocery channel, along with Tyson Grilled Chicken Tenderloins in the Club Store channel. Our Case-ready Beef and Pork group has valued up proteins by pairing beef, pork, and chicken with fresh vegetables, seasonings, and sauces to create healthy, convenient meal solutions. This product line has seen double-digit growth this year.



Turning to our international business, we're making progress on the growth of our operations in China where we're placing an emphasis on food safety, quality, and supply-chain integrity as we grow that business. Our start-up plant in Jiangsu achieved full production on the first shift in April, and we're on plan in regards to our poultry housing construction plans. Our operations in Brazil aren't at the level we'd like at this point but we're working on upgrading our mix, getting costs down through automation, and filling up our plants. However, we are pleased with the progress and the efficiencies we're gaining as we double shift these plants.

I'll wrap up by saying that we still believe we have the potential for \$2 a share for the year, especially considering the pricing support we should get from overall declining domestic protein availability. Now, it won't be easy, considering Beef results in the first half of the year, but Beef is rebounding and our other segments continue to do well, portending another good year. Again, this demonstrates exactly why I continue to believe that our multi-protein, multi-channel, multi-national business is the right way for Tyson Foods to deliver long-term sustainable earnings.

I'll now turn it over to Jim for a review of our segment results, followed by Dennis with the financial report.

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

Thanks, Donnie, and good morning, everyone. With \$115 million in operating income and a return on sales of 8.4%, the Pork segment again performed above its normalized range of 6% to 8%. We have accomplished this by staying focused on operating efficiency, product quality and yields, mix management, customer service and taking care of our team members, while moving commodity products up the value chain. The Pork segment is currently experiencing some domestic demand pressure in hams, bellies, and trimmings. Exports have remained strong in calendar 2012 year-over-year. We do expect to see hog supplies up 1% to 2% year-over-year for the balance of our fiscal year. While our Pork margin performance should remain strong through the second half of the year, we do not expect it to be at the levels we achieved in the first six months.

Our Prepared Foods segment with \$44 million in operating income and 5.5% operating margin, again produced returns in the upper end of its 4% to 6% normalized range. These results reflect improvements in pricing and mix. Growing our Prepared Foods business remains a key growth avenue for the Company. For example, today we're opening our state-of-the-art expansion at our Council Bluffs, Iowa, pepperoni plant. We will continue to look for opportunities to acquire or build new assets to expand in several other categories or to increase capacity in existing categories.

Recovery in the Chicken segment occurred faster than we expected. As we returned to our normalized operating margin range of 5% to 7% in the second quarter, Chicken posted a 5% return on sales with \$145 million in operating income after absorbing \$65 million in additional feed cost versus Q2 last year. Our team has done a very good job of managing price to cover inputs, and we're expecting pricing to remain strong as we have kept our inventories in line. Meanwhile, the industry as a whole has reduced production pounds by 4% to 6% year-over-year.

To help keep our production balanced, we've bought Chicken on the open market rather than growing all the birds we needed. We won't grow birds solely for the part in the highest demand because we have to sell the entire bird. Grow versus buy is a strategy we look at continually based on input cost, revenue, demand forecast, and the needs of our customers. We've been very methodical in our approach but we can and will add production when long-term demand warrants. We'll use our locations where the cost of production is most competitive. In the second half of the year, we expect our Chicken segment to be in the normalized range. We're still on track to meet \$125 million operational efficiency target for fiscal 2012.

Finally, let's look at the Beef segment, which essentially broke even for the quarter. The fact we are able to come this close to making money in the second quarter demonstrates that we have a strong, well-managed business. The team did a good job of executing in the areas they could control and competed well in other areas. In Q1, supply balance was the problem. In Q2 it was the demand issue.

Since our last call, the industry appeared to be headed toward a recovery and we briefly returned to normalized margins in late February, early March. Then the unwarranted controversy over lean finely textured beef temporarily destroyed demand for ground beef and beef in general virtually overnight. This caused a rapid decline of over \$120 per head over a four-week period. Personally I don't recall a revenue decline that steep. Cattle prices corrected but not at the same rate, which did cause extreme margin compression in March and early April. In a commodity spread business, raw material prices ultimately adjust to the revenue, and forward revenue projections, and we're seeing that correction occur.



Industry slaughter in Q2 versus a year ago was down 6%, and Tyson was down more than that. So we gave up market share in an effort to manage our margins. We believe the revenue-to-cattle cost relationship has the potential to realign to the normalized profitability as cattle supplies appear to be adequate for May through early fall. Although we're taking a cautious approach to Beef demand, other fundamentals would suggest optimism. We've headed into a seasonally strong demand period. The reduced steer and heifer slaughter in our Q2 plus the continued reduction in April would indicate more than anticipated supplies in May and beyond. Some analysts are projecting fed steer and heifer availability to be much higher than originally anticipated in most feeding regions.

Longer term, it looks like we could be in the initial stages of the herd rebuilding as Beef cow slaughter is down and some heifer retention appears to be taking place. This will not impact the remainder of our fiscal 2012, but the extent of heifer retention will influence the fed supplies into 2013 and beyond. We have seen the shift to more cattle being fed in 1,000-head-plus feed lots, which is generally favorable to our plant locations. In closing, I'd like to thank our team members for staying focused on the long-term objectives of managing total revenue and cost while also managing through the near term ups and downs.

I'll now turn it over to Dennis for the financial report.

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**Dennis Leatherby** - *Tyson Foods Inc - EVP and CFO*

Thank you, Jim, and good morning, everyone. As Donnie mentioned in his remarks, we reported Q2 earnings of \$0.44 per share. Return on invested capital for the last 12 months was 14.4%. Capital expenditures were \$162 million for the quarter, and totaled \$344 million for the first six months of fiscal 2012. We continue to invest in numerous capital projects for our domestic and foreign operations. These projects will result in improved productive capabilities and drive labor efficiencies, improved yields and sales mix.

Our operating cash flow for the first six months remains strong at \$454 million. Including cash of more than \$700 million, net debt was just under \$1.5 billion. Total liquidity was \$1.7 billion, well above our targeted range of \$1.2 billion to \$1.5 billion. Gross debt remained at \$2.2 billion. Gross debt to EBITDA for the last 12 months was 1.4 times. On a net debt to EBITDA basis, this measure was 1.0 times.

During the second quarter, we acquired 3.6 million shares for \$70 million under our share repurchase program. Over the past four quarters, we have repurchased 15.1 million shares since we reactivated this program, representing a reduction of about 4% of our outstanding shares. Over time we expect to continue repurchasing shares. Last week our Board expanded the share repurchase authorization by 35 million shares, increasing the total remaining authorization to just over 42 million shares. Our average diluted shares outstanding for the second quarter was 373 million. The dilutive share effect totaling \$5 million for options and \$4 million for convertible bonds will fluctuate depending on our stock price performance. Our effective tax rate for Q2 was 35.3%.

So here is an update on the outlook for fiscal 2012. Revenues are expected to approximate \$34 billion, driven largely by raw material price increases and continued tight domestic protein availability. We expect net interest expense to be approximately \$190 million, down \$41 million from fiscal 2011. The effective tax rate should be about 36%. CapEx should be around \$800 million to \$850 million. This reflects continued spending on improving the efficiency and competitiveness of our domestic and foreign operations, while also continuing to build out our foreign businesses, especially in China.

In closing, our Q2 results continue to demonstrate that our diversified business model works. We are pleased to see our Chicken business return to its normalized range while our Pork and Prepared Foods segments continue to operate in or above their normalized ranges. Although our Beef segment faced volatile market conditions and a reduction in demand for Beef products from factors out of our control, we delivered solid results as a whole. As we have mentioned before, while it is great when all four segments are within their normalized ranges, it is not a requirement in order to perform well as a Company. We will continue focusing on the areas of our business we control, and remain confident we will provide strong results for a third consecutive year.

This concludes our prepared remarks. And I'll ask the operator to begin Q&A.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Tim Ramey, DA Davidson.

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

Congratulations. Jim, unless I missed it, you gave a little bit of an outlook on how you expected margins to look on every segment but Beef. Did I miss something there or was that an intentional omission?

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### Jim Lochner - Tyson Foods Inc - COO

I thought Donnie actually had it in his remarks. Beef margins have, in the last couple weeks turned nicely, and if I replay it back into Q2, we had those Beef margins turn where the relationship of revenue to cattle cost was back in line, through February, mid part of February and early March, and then they really corrected after the LFTB controversy hit, where we saw that really rapid decline in Beef wholesale prices. Again, I said that was probably steeper than I can ever recall, at \$120 a head.

If we look forward, we had the comeback in the last couple weeks, took a while for that correction, and we do see adequate supplies, because you have to look back. The industry has really processed dramatically fewer animals through January through March. That also happened in April, and we also look back in October through December, we processed considerably fewer. Against my calculation in that first six months we're seeing 700,000 fewer head processed, which tells me that the supply should be very adequate the balance of this year. The key will be in margins, we expect to be able to hold on to this revenue-to-cattle cost relationship going forward.

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

Great. And Dennis, a quick housekeeping.

I'm surprised that the earnings presentation doesn't say \$0.45, it looks like we were really \$0.415 for the first quarter, I think. Anyway, the bottom line is that we rounded down for two quarters in a row. Sorry to nitpick on that.

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### Dennis Leatherby - Tyson Foods Inc - EVP and CFO

You're right, Tim. We're being conservative on that.

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

Okay. Thank you.

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### Operator

Christine McCracken, Cleveland Research.

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

Nice job on the quarter. Especially given everything they keep throwing at you. In any case, Jim, you mentioned on the Beef side that your slaughter volumes were down more than the industry, and it's obviously already at pretty low levels. I'm just wondering, as you look into, maybe a little beyond the end of your fiscal year and looking at the retention that we're seeing on the heifer side, are you expecting to be able to manage through that continued decline in slaughter volumes as things maybe tighten up with heifers, and then, maybe tighter fed cattle supplies as you head into fiscal '13?

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

Fiscal '13 as you know, fed steer and heifer supply will really -- the base number on that was 2011 calf crop which was still 35.7 million. We didn't see -- that decline will be this year's calf crop in 2012. Typically around about a two year lag, so about 73%. If heifer retention, since we usually process about 9.5 million to 10 million heifers, we could see 400,000 to 500,000 come out of the 2013 number. But again, you have to look at the fact that feeder cattle imports are also running more than they were a year ago, and what we've seen is the shift in -- because basically the crush has been very negative. So, you've seen less cattle being placed in the smaller feed lots which, again, is favorable to most of our locations that sit where there's very dense feed lots.

So, the supply will tighten and then we'll have to see as this calf crop of 2012, how much heifer retention's there. You have seen fewer Beef cows processed and you've got a little bit of a conflicting message on the heifer retention when you look at the April on-feed number which actually show 4% over. I would expect, though, that we'll see heifer retention start to rebound as we go through the year if we have adequate moisture in those cow states.

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

Is it your expectation, then, that feeder cattle imports will continue to be at these levels? Because it looks like the cattle supplies in Mexico and Canada are getting a little tighter.

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

I'm looking at the year-over-year number, which is roughly in the last six months running about 100,000, and so as their cow herds could decline, obviously we'd see less. But the feeder cattle price in the US has been very supportive to pull those calves out of Canada and Mexico.

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

All right. Leave it there. Thanks.

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**Operator**

Heather Jones, BB&T Capital Markets.

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

Congratulations on the quarter. A question for Beef and Pork. Since Q1 of your fiscal '10, we've seen Tyson outpace Kedgers' Edge's calculation of industry margins by about \$15 a head in Pork and \$55 to \$60 a head in Beef, and there's been about -- there's been an upward bias in the trend. I guess my question is, what two to three factors are most critical in driving that outperformance? And more importantly, do you believe there's an opportunity to widen that further in a significant way, say, \$5 to \$10 a head?



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

You've put me on the spot when you quantitated the second part of that question.

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

I was trying to corner you into answering me.

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

I do think there's upside. That's what we work on every day, because we're looking at how to really value up the mix, and in fresh meat you really have to say that the bulk of those price quotes are on commodity or second-value added raw products. Our whole thrust has always been to try to understand where we can add value to the customers by taking more bone, more trim, more Case-Ready trim, more retail-ready trimmed subprimals, and we obviously charge, so we look at a return on labor.

The industry will continue to evolve. It has over a long period of time. With higher freight cost you're going to see, I think, a more rapid transformation to more value-added raw products. And that's one of the ways that we've done that. I think we'll continue to see upside.

But the other three -- two to three factors that we really focused on, some of it's location, our plants do sit where the live stock quantities are. That gives us a freight advantage on the buy, it gives us a shrink advantage for yield. And then we're looking again at always our efficiency and how we really manage the mix. Another thing we do is really look at our pricing mechanism, try to get as much on formula, take the least amount of fixed-forward selling risk that we can.

So there's a variety of things. I know you don't like always the answer. It's simple blocking and tackling and focus on basics, but there's probably over 80 metrics that our teams really look at from a combination of plant efficiency, labor efficiency, yields, mix, value-added mixes, pricing metrics. We index our self every way that we possibly can, and that's the way we drive that differential.

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

But the most important take-away I should take from this is that you do think there's further upside to widen that outperformance?

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

Our goal every quarter and every year is to add to that margin differential on the revenue. Our job, the way we look at our position in Livestock and Beef and Pork is to add as much revenue to the product as we can, because we do know that the revenue and livestock cost will stay in a pretty good correlation for the most part over time, and we want to maximize the revenue to the overall category.

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

Okay. Thank you.

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**Operator**

Ken Goldman, JPMorgan.

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**Ken Goldman** - *JPMorgan - Analyst*

Urner Barry reported a nice jump in boneless skinless breast prices last week. I know some of that's seasonal. But their commentary about breasts was a little bit more constructive than it usually is. I've heard of some buyers looking for, say, 100 loads, only able to get 60 or so. Is this what you're seeing in the boneless market too? If so, how sustainable of a trend into the summer do you think it will be?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Ken, this is Donnie. It feels like that this firmness will probably continue a little bit longer, maybe on even into the summer. The thing we keep our eye on, keep our eye on gas prices, we keep an eye on the hopeful but sluggish economic recovery. I think that's probably got as much to do with it as anything. I'm not sure how accurately we can predict that.

But we can predict this. Jim mentioned in his comments our buy versus grow strategy. We've been able to buy -- we balance to the nearest whole bird increment and then buy the parts that we need. A lot of that's been breast meat. The meat's been available. And I think as things firm up, then there may be a little bit less meat available but, frankly, all that was kind of built into our plan as summer demand picked up. So honestly, it's working just like we expected it to, and we feel really good about how that's going to play itself out for us this summer.

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**Ken Goldman** - *JPMorgan - Analyst*

And then sticking with Chicken, and forgive me if you addressed this already, but can you talk a little about your forward buying on beans. I think the last time you spoke on hedging you mentioned you were fairly close to the market on grains. But I didn't hear a whole lot about soy bean meal. Of course, the price of that commodity has risen a lot.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

That's a great question. The South American production is down versus what we expected couple, three months ago, and then another factor in our DDGs, a lot of the ethanol producers are pressing those DDGs to get the corn oil out, which is going into renewable fuels. And that of course, once you take the energy out of that, it's a pretty high -- the protein-fiber ratio gets to the point that you really don't feed it in simple-stomach diets at near the ratio. So that has caused, I think, an increase in feeding.

Meals shot up dramatically. I think futures, I didn't look this morning but late last week they were around 430 a ton. We're about four, five weeks out, something like that. We stay pretty conservative, and we're, by the way, about the same place in corn, and so we do keep an eye on that. We've got pretty decent basis coverage out through the summer, so we feel pretty good about where we are. You've got to remember, it looks like we've got a huge new crop coming, lots of uncertainty yet, but you sure don't want to be too long going into that cliff period where you're going to start bringing a big new crop into the marketplace.

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**Ken Goldman** - *JPMorgan - Analyst*

Got it. Thanks very much.

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**Operator**

Christina McGlone, Deutsche Bank.

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

Donnie, first question, if Chicken was better than you thought one quarter earlier and achieved normalized margins, why wouldn't it be better than normalized this summer?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

It could be. There's certainly the possibility that it would. As we look at our year and you look at all of the segments combined, it looks like to us Pork's probably going to end the year at a little better than normalized. Chicken can sure get there. Expect it to. Again, the only caution in my tone at all about Chicken is this economic recovery. Looks like to us slaughter pounds are going to be down about 4% for the year, so the environment is about right.

But the demand picture, what's \$4 gas going to do to disposable household income, and what effect that might be -- might tame it down a little bit at the end. In our press release we mentioned that Beef ought to be in the range in the fourth quarter, and then our Prepared Foods business will be in the range. So, we feel good about how the summer's shaping up. Ought to be a strong back half for us.

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

Okay. A follow-up on Beef. So, fourth quarter's normalized. Even though margins right now appear to be very strong, was it just that April was so weak that that's why you can't be normalized in the third quarter? And how should we think about the fiscal third quarter in Beef for margins?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

April was bad in that first couple weeks. Before that price of cattle corrected down with that revenue decline, and so that's the only caution on Q3. But last couple weeks we've been very pleased as that revenue to livestock cost spread has widened.

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

Okay. Thank you.

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**Operator**

Lindsay Drucker Mann, Goldman Sachs.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

I wasn't sure, maybe I missed it, but have you actually quantified what you expect feed costs to be up year-over-year, this fiscal year if we were to mark everything to market as of today.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

It's in the \$250 to \$260 category. That will be a ballpark range.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

Okay. And you -- sorry.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Go ahead. I don't know if we specifically put that in the press release, but it's going to be about that range.

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**Dennis Leatherby** - *Tyson Foods Inc - EVP and CFO*

Year-to-date it's \$285.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Okay.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

Okay. And you also mentioned in the press release that there is other non-feed costs that were inflationary in the period. Could you just talk a little more about those?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

A lot of your animal byproducts, all of that trades off soy bean meal. A lot of ratios, your feed fats, for example, are an energy source, and as corn trades up and down, so do those sources. When you put all that stuff together, you're going to get -- the vast majority of that cost is going to be in corn and soy. But fat, animal byproducts, and all those things will come to play too, because they all feed off those two markets.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

Okay. You guys have been speaking a bit more about as the turnaround, restructuring story of Tyson is clearly full-force, and we're talking a little bit more about growth opportunities in the future, you've spent more time talking about both the international opportunity and the value-add opportunity. I was wondering if you were prepared to maybe put some more numbers around for example accretion potential in your China expansion, or how you think things like the new additions in Prepared Foods that you guys mentioned today may ultimately add to earnings? Just a little more color around the real earnings opportunity there, as we start to think longer term.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

That's a great point. Obviously, our international and value-added segments are intended to be the acceleration for our growth. A little bit on China. Our model there is really around Company-owned, Company-controlled live production and food safety and quality and supply-chain integrity.

I think we said in the last quarter that by 2014, we'll be at about 3 million head a week there, which is less than 10%, I guess, of what we're doing in the US, but still, that will be the equivalent of three pretty decent-sized US complexes. We are seeing our entrants into those markets, not only in the food service but also at retail. We have Tyson-branded Chicken at retail today, which is small. These plants are just start-ups, and we're just getting started. But so far, so good.

In value-added, whether it's poultry or Prepared Foods, we see a lot of opportunity. We've done a lot in the last really couple years. As you mentioned, our quality, our service, and our innovation are really driving customer loyalty, and we're getting paid for it. As our customers continue to struggle in this economy to find ways to drive traffic to their store or to their restaurant, they're looking to us for that new product innovation and leadership. A greater presence in value-added Chicken, whether it's breaded or non-cooked, is certainly in our future and there's lots of opportunity for us in Prepared Foods in all of the categories.

We've made great strides in the last couple quarters in our Lunch Meat business. We've got great opportunities there. We did offer a Wright Brand dinner sausage in the marketplace, off to a good start there. We've got a new pepperoni plant. Our folks are out currently very aggressively selling that product, and so we've got tons of potential. It's a little bit too early, I think, to start getting into a whole lot of details specifically about what each one of those would do to earnings, but the potential's there and you've certainly read us correctly that we're going to be aggressively growing our business.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

Great. And then just last thing, a little bit more noise about what Russia's WTO accession might mean. Can you just give a view on what you think that might mean for exports of Pork and Chicken in particular?

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

Russia does have a goal set, this is Jim, on trying to get self-sufficient in both Poultry and Pork production. They won't be able to get quite caught up in Beef. As of late they've been strong importers of US Beef and US Pork. So, if they get into WTO, I don't look at that -- that's all upside the way I look at it. The key thing, we always watch world production numbers and try to make sure that we're optimizing our sales relative to what's going on in the world, and search for the highest revenue component that we can find.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

Great. Thank you.

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**Operator**

Akshay Jagdale, KeyBanc Capital Markets.

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

Congratulations. Good quarter. I want to follow up a little bit on Beef. I notice that your supply projection for your fiscal year for fed cattle supplies is down from what it was previously. I'm guessing that's because of what you've seen so far this year and that just means that there will be more available in your next fiscal year. Can you talk a little bit about that, Jim?

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

Certainly can. If we look at our fiscal year, we were projecting in the 1% to 2%. If you look again at our first seven months of our fiscal year, we're down just short of 699,000 head year-over-year, and I didn't adjust for any difference in days on that. Which would imply that we should have more cattle available the back half. But the key is, demand is very fragile to oversupply, so I don't expect that -- we're watching it very carefully ourselves-- that we don't push more meat on the market than the market can absorb to try to make sure that we hold prices as best we can, which would suggest that we'll push cattle past our fiscal year into our first quarter of 2013.

And the beauty of Beef and the supply chain is you do have a number of options in the way that you feed and manage them to try to hit different marketing windows. So, I'm thinking that we'll see more cattle pushed out into 2013. The key number going forward, again, is what is 2012 calf crop That's 2014's supply. So, we'll buffer out as best we can and we're looking at that on a continual basis as well. But it is very interesting that we process that many fewer head in the first seven months of our fiscal year.



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

Jim, there is obviously a lot of negative headlines on Beef as you know. And it seems that, at least from the investor side, there's concerns about '13. Now, you said, fiscal '13 you don't expect supplies to be a major issue. Can you -- when would you be comfortable enough to say something about margins for fiscal '13? I know it's a dynamic situation but assuming demand is relatively stable, shouldn't we have a pretty good environment for Beef margins in '13?

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

I thought we should have in '12, but it didn't work out that way in Q1 and Q2. We had a couple strange issues, one on last -- on Q1, the demand pushed for high-quality cattle pushed that spread up. And then in Q2 when you have this much demand destruction for an unwarranted publicity on Beef, and it was surprising how much that put pressure on ground Beef and trim and then the rest of the cuts. Absent any of those, and I don't foresee anything more happening on Beef on the negative side from a demand standpoint, other than basically the normal economic factors, and the fact that I think we could push a few more fed steers and heifers out in front of us, 2013 could be a very decent year.

I'm more concerned about the out front year, 2014, particularly with this year's calf crop and the cow herd that was down almost 1 million head last year. That's the concern, and then how much heifer retention will occur between now and then, will take fed steers and heifers out. So, we have a lot of moving parts to cull before we can get too far out front on calling what we think will happen in 2013.

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

Okay. That's helpful. Just on Chicken, if I may. Just following up on some earlier questions. So, has profitability been better each month throughout this year? Has it been moving up pretty consistently?

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**Donnie Smith** - Tyson Foods Inc - President and CEO

Yes. I'm trying to think real quick.

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

It's improved every month.

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

Right. So, then just, your caution you mentioned in terms of the possibility of margins being above normal at some point this year, your caution is just on demand, right? But let's say demand is relatively stable to even up over the next six months. What kind of potential does Chicken have?

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**Donnie Smith** - Tyson Foods Inc - President and CEO

You ought to feel good about it. It's hard to say what does good demand mean and that kind of thing. I'm going to say we have the potential as the environment stands today to end the year in the range in Chicken, and so what that's going to mean is a strong back half. We had a 1.5% or so for Q1. We've got a 5% for Q2. Do the math. We've got to be well up into the upside of the range later.

We're facing some -- the possibilities of some pretty strong QSR Chicken promotions this summer. We think that's going to be advantageous to us. So, my cautionary note is is what, if anything, is \$4 gas going to do, and that kind of thing, but if that stuff doesn't happen, we're positioned very well for the year.

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

And just one last one on Chicken, more medium to long term. One of your competitors, obviously, has made a bet on exporting the back half of the Chicken. While it seems like you're positioned well even if some of the demand in the US increases on dark meat, seems like you're investing to add value to the back half of the Chicken even in the US. Is that -- are you taking a bet either way? Or are you going and you're just increasing flexibility in your plans to take advantage of either situation? Just trying to clarify.

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**Donnie Smith** - Tyson Foods Inc - President and CEO

Well, yes, we're taking a bet, and we see there's an opportunity domestically to grow dark meat sales in lots of forms, in areas that have had a traditional Beef and Pork meat block, whether it's sausage, pepperoni, et cetera, et cetera. Dark meat chicken has a play there. Lunch meat, there's obviously great opportunity there. So yes, we are definitely moving value-added dark meat domestically and internationally too. We keep an eye on all those markets constantly. We have a very diverse selling program in lots of different geographies. We think that gives us the best opportunity to drive the best whole-bird return for every bird we grow.

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

Okay. Thank you very much. I'll pass it on.

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**Operator**

Farha Aslam, Stephens.

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

I have a question on the retail market. From what we see in our data, retailers are really keeping the price of particularly Pork and Beef exceptionally high and really expanding out those retail margins, and that's pressuring profitability of the protein producers. And could you talk about what you expect demand going forward at retail, if you expect pricing to moderate at all this summer? And how you expect those margins for processors and yourself in Pork and Beef to progress as the summer goes by?

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**Donnie Smith** - Tyson Foods Inc - President and CEO

You're right, higher retails have dropped volume. As I mentioned a little earlier in the call, Beef's down 9%. Ground Beef -- of course a lot of that has to do with LFTB was down 7%, Pork down 3%, Chicken flat. I frankly don't expect a whole lot of change. We seem to be seeing a little bit of resistance at a composite cut-out of \$1.90, plus. So, that may stem some pricing. But as for us, we have all that factored in in the margins that we're talking about and feel pretty good that at the end of the day, we're going to be able to deliver about what we're saying.

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

Do you still think \$2 is possible, even with a tough retail environment?

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**Donnie Smith** - Tyson Foods Inc - President and CEO

We've got work to do but yes, it's possible.



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

One comment on retailers, though. Last year as those wholesale prices inflated in a lag-pushing retail, this year they're trying to get ahead of it. It's as simple as the market's doing its job. But, the retailer has costs too and they have margin expectations. So, they're passing on the wholesale prices, and if it decreases pounds then it adjusts wholesale prices. That's the way the market works.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

The biggest pounds are down in the categories where we're spread business. So, we adjust to that.

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

Do you expect livestock, in terms of cattle and hog prices to reflect that retail demand over the back half of your year?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Repeat your question.

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

So, the back half of the year, given where cattle prices are and hog prices are, you think you can make your target margins and hit \$2, despite the tough retail pricing environment?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Yes, yes.

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

Okay. And then just my second question is, you've announced an increase in your share repurchase program. Could you just share with us how aggressively you plan to execute that program, and if you have any time horizons in mind for share repurchase?

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**Dennis Leatherby** - *Tyson Foods Inc - EVP and CFO*

The reason we increased the authorization is, we were down to 7 million shares, and we acquired 15 million over the last 12 months. So, we needed to increase the authorization. As far as the rate of purchases, that really isn't going to change too much. We're focused on our liquidity.

We need a lot of liquidity in our Business, and we also have a couple big maturities coming up in the next two years. So with \$1.7 billion in liquidity, that's more than sufficient to cover those maturities and run our business well. But so we'll just -- we'll let our liquidity determine how much we buy each quarter and we'll respond accordingly.

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

Okay. So, no time horizon that you've established?

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**Dennis Leatherby** - *Tyson Foods Inc - EVP and CFO*

No.

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

Okay. Great. Thank you very much.

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**Operator**

Robert Moskow, Credit Suisse.

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

I think everything's been asked and more. So, about the two pieces of debt that are coming due, can you give us the timing on that and what do you think that might do to your interest expense? Do you expect to refinance? Can we look at fiscal '13 interest expense as going lower right now?

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**Dennis Leatherby** - *Tyson Foods Inc - EVP and CFO*

Fiscal '13 interest expense will be pretty much the same. The two maturities are actually in the early part of fiscal 2014. So, the big drop will come mostly -- a big jump will occur in '14, and then in '15 it will be a really big jump up of more than \$100 million. In terms of how we're going to handle it, at some point in the future we'll fund part of it with a bond offering or some other kind of capital raise. Not sure when we're going to do that, since we have enough liquidity today.

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

Seems like the way I model it, you're going to have a lot of cash flow building up on your balance sheet, a lot of cash building up, if you're going to wait all the way until '14. So, getting back to Farha's question, is there any sense of urgency to -- is there any thought anyway to increasing the share repurchase authorization beyond \$35 million?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

No. At this point, no. But, love having the options that great cash flow gives you. We've announced, I think, very recently our expansion in Sedalia, Missouri. We've spent about just something shy of \$50 million in Council Bluffs on our pepperoni/dry sausage plant. We've got great opportunity within our business to continue to grow and get into new categories, and it gives us great resources to be able to grow our business. We've also got great options in buying back stock, debt reductions, acquisitions when they come about, all those type things. What we're trying to do is give ourselves options, and you can see that those options are piling up.

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

Can I ask one follow-up? You mentioned lunch meat and sausage. There is a pure play domestic lunch meat and sausage company that's going to have an analyst day coming up. Why get into lunch meat and sausage now? You've been in it before. Why the strategic push now?

**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Well, we have been for quite some time. When IBP bought up all of the businesses that made up Food Brands America, a lot of those businesses, several plants were lunch meat and sausage. It's a good business, good category. We have in our lunch meat business, we've not performed like we should. Our team has done a great job getting that business turned around and getting our cost structure right, and we found that we can compete in that category. We're good at it. Our customers depend on us. We're a pretty large private-label lunch-meat supplier today and sell a lot of own-brand lunch meat, deli meats, that type thing. We've been in it. We're pretty good at it. And we're going to grow it.

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

Okay. Thank you.

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**Operator**

Ken Zaslow, BMO.

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

So, obviously the fiscal year is an arbitrary date, pretty much everybody has a different date. But if I look at your guidance or your implied guidance, your run rate is much above the \$2 run rate, right, because the first half of the year is below that. Is there anything that kicks you off that run rate above the \$2 number beyond 2012 into 2013?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

No, not really.

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

Okay. That's what I thought. The second question I have is, in terms of the Chicken margin structure, this year's \$125 million in savings. What are you guys looking for in terms of your next leg of savings into 2013 and beyond? Is there more programs than being instituted with the CapEx spending, can you talk about that?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Little early yet. Our folks will begin planning the 2000(sic) fiscal year late this month, early June, and we will have our savings projections and those types of things in the August/September time period. We always asked our businesses to have that in front of us before we begin the fiscal year. So, you're about a quarter early. We do see potential down the road but it's a little bit too early to quantify it.

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

We should expect to see another -- some program into 2013 of --

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

In every segment of our Business, we are always looking for ways to maximize our operating efficiencies and continue to drive business performance through executional excellence.



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

And just a final question. You don't consider this year a good operating environment year, or do you?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

No, no. We -- let's just take a segment, take Chicken, for example. Last year probably absorbed \$800 million plus in corn and then maybe another \$200 million in other Prepared Foods, another \$200 million in raw material increases. This year you're probably going to absorb \$250 million, \$300 million more, plus, obviously, you've had LFTB and all these other issues that have come up in the Beef segment. So no, this has been far from an ideal operating environment.

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

Q2 felt like we just got beat up every week on an issue. It was something every week, and we came through it, when it was all said and done, fairly well, so --

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

Great. Appreciate it. Thank you.

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**Operator**

Vincent Andrews, Morgan Stanley.

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

Could you just talk a little bit about how your Chicken results compare to what you see in AgriStats? Just trying to get a sense of how much your self-help stuff, and so forth, is helping.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

We do look at multiple benchmarking services. I would tell you that our performance has continued to improve. Now, there's always ups and downs month-to-month. Frankly, there's a couple things in Q2 that we were a little disappointed in in our Chicken segment. But the team did a great job and pulled it out. So, we're at or approaching top-quartile performance, and of course, we have a multitude of plants, probably 30-something locations that factor into our average. 32 I think, so, to have an average of 32 locations in the top-third, top-quartile of that is pretty solid performance.

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

And maybe just as a follow-up to that, could you discuss where the lowest quartile is? I guess what I'm trying to understand is that your margins are obviously back where they are. And do you think that they could get better going forward? You also I talked about maybe there being a big corn crop coming, and you sounded a little more positive on breast meat, which has been one of the things I think is holding back margins.

And we are seeing I know you think production's going to be down 4% this year, but we are seeing sequentially egg sets are increasing. So, I guess I'm just wondering maybe over the next 12 months, are you at all concerned that we're going to get back into an environment where supply's going to start increasing again in a meaningful way? Or is the bulk of the industry just not at a point yet where that's even worth worrying about?



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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Just one quick point of clarification. Sets and placements aren't necessarily increasing, but the comparator versus a year ago is tightening up because of when we began to cut back last year.

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

A year ago we were at 208. Last week we dropped it back down to 198.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

I really only want to talk about our performance. We have seen great increases in our live performance. Our team has done a very good job. We continue to make great progress in our labor efficiencies, line efficiencies, our yields are better, just all aspects of our conversion costs continue to improve. Partly because of the capital that we've been able to spend, but also our folks are very innovative and they're constantly pressing on analytics and finding new ways to innovate processes to continue to outpace the others.

And we've built great customer loyalty. We continue to expand on that. We want to be seen as our customers' go-to supplier, and I think that is also a very key component. So, it's a very balanced approach. It's a combination of lots of things that have come together, and we've got I think great opportunity looking forward.

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

Thanks very much. Good job in a tough environment.

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**Operator**

Tim Ramey, DA Davidson.

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

Donnie, just a follow-up. I heard you say Case-Ready was doing well, and every couple years we get excited about Case-Ready. I'm wondering if it's time to -- if there's something happening there in particular, or this just was a -- a one off.

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Steady growth, business does well. We're very good at Case-Ready Beef and Pork, and their value-added line is doing well and adding to their business. That's a great team around a great business. The retailers view it as an important part of making sure that their shelf presence and their category stays healthy, and our team has done a super job not only in terms of the quality of the product offering, but also in the service. Our on-time delivery, our order fill rates are just phenomenal. So, we've got a great team around that business and it continues to grow progressively.

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

And I remember you making comments maybe last quarter about how Memorial Day weekend last year was a disappointment. I assume that you know a lot about what the Memorial Day order book looks like right now, or it's coming together right now. Can you characterize the year-over-year on that?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Certainly better than last year, and it's interesting because gas prices, gasoline prices actually peaked higher than they did a year ago sooner, about by maybe six weeks or so, and in terms of an average have taken more disposable income out of consumers' pockets for longer this year, and yet it feels like to us the Memorial Day weekend should certainly outpace last year's by a pretty good margin. So, we feel good going into the summer grilling season. I can tell you Pork demand's a little bit slow. But again, it's a spread business and the other categories are doing fine.

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

Is the positive weather, has that been a factor for getting grilling season going early?

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**Donnie Smith** - *Tyson Foods Inc - President and CEO*

It's got to help.

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

Yes. Terrific. Thank you so much.

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**Operator**

Ann Gurkin, Davenport.

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

Congratulations on your quarter. Wanted to follow up on what you just referenced, the slower near-term demand for Pork. Do you know what's behind that?

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

Let me jump in a little bit on that. The retail has been down slightly, but your biggest wholesale drops have been in bellies, which basically I do think market did its job there. High-priced bacon actually decreased consumption, et cetera, put pressure on the belly complex. The biggest disappointed though overall was hams. And export hams stayed up fine, and it was domestic consumption of ham products that came down, putting pressure on that.

And then trimmings actually have also had a major hit on the wholesale side which I think is a combination of the Beef trim correction that we saw from LFTB, as well as the fact that pigs have been very heavy and there's been ample supply, and we've probably seen a pullback and have seen a pullback in some of the food service consumption on pizza products that support that market.

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

Okay. And then you referenced in your comments about overall industry for Chicken production to be down 4% still for the year. What is Tyson's -- what is your production right now for Chicken estimates?



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

We'll be down that or just a tad more.

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

Okay, that's perfect. That's all I have left. Thanks very much.

**Donnie Smith** - *Tyson Foods Inc - President and CEO*

Okay. Thanks. And thanks for joining us today and for your continued support of our Company. I'm excited about the opportunities ahead of us in the second half of fiscal '12 and beyond, and I'm confident in our team's ability to execute against our plan. Thank you for joining us and have a great day.

**Operator**

Thank you. This does conclude today's conference. Thank you for participating. You may disconnect at this time.

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