TYSON FOODS INC
Form 10-Q
August 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **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	**71-0225165**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2200 Don Tyson Parkway, Springdale, Arkansas	**72762-6999**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

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

Class	**Outstanding Shares**
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	$ 248	$ 131	$ 567	$ (90)
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	$ 0.036	$ 0.036	$ 0.108	$ 0.108

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)

	July 3, 2010	October 3, 2009
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	$ 10,467	$ 10,595
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	$ 10,467	$ 10,595

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.

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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.

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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

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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.

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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	$	$ 7	$	$ (1)

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.

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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 Three Months Ended		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings 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	$ 2	$ 3		$ (4)	$ (22)

	Gain/(Loss) Recognized in OCI On Derivatives Nine Months Ended		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings 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	$ (3)	$ (49)		$ (5)	$ (59)

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.

					in millions
	Consolidated Condensed Statements of Income Classification	**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.

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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 Three Months Ended July 3, 2010	June 27, 2009	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings Three Months Ended 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 Nine Months Ended July 3, 2010	June 27, 2009	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings Nine Months Ended 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.

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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:

	Metric	July 3, 2010	October 3, 2009
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):

	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Recognized in Earnings Three Months Ended		Gain/(Loss) Recognized in Earnings Nine Months Ended	
		July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
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	$ 18	$ 8	$ 7	$ (182)

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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	Fair Value 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.

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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):

	July 3, 2010	October 3, 2009
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	$ 2,132	$ 2,009

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

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

	July 3, 2010	October 3, 2009
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	$ 3,631	$ 3,576

NOTE 8: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	July 3, 2010	October 3, 2009
Accrued salaries, wages and benefits	$ 400	$ 187
Self-insurance reserves	249	230
Other	424	344

Total other current liabilities	$ 1,073	$ 761

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.

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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 as