TYSON FOODS INC
Form 10-K
November 21, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **September 29, 2007**

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________________ to ________________

Commission File No. 001-14704

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.)

2210 West Oaklawn Drive, Springdale, Arkansas	**72762-6999**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(479) 290-4000**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Stock, Par Value $0.10	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes **x** No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No **x**

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, and (2) has been subject to such filing requirements for the past 90 days. Yes **x** No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **x** Accelerated filer o Non-accelerated filer o

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

On March 31, 2007, the aggregate market value of the registrant s Class A Common Stock, $0.10 par value (Class A stock), and Class B Common Stock, $0.10 par value (Class B stock), held by non-affiliates of the registrant was $5,382,708,218 and $455,902, respectively. Class B stock is not publicly listed for trade on any exchange or market system. However, Class B stock is convertible into Class A stock on a share-for-share basis, so the market value was calculated based on the market price of Class A stock.

On October 27, 2007, there were 285,603,627 shares of the registrant's Class A stock and 70,021,155 shares of its Class B stock outstanding.

TYSON FOODS, INC.

INCORPORATION BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held February 1, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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TYSON FOODS, INC.

PART I

ITEM 1. BUSINESS

GENERAL

Tyson Foods, Inc. and its subsidiaries (collectively, Company, we, us or our), with world headquarters in Springdale, Arkansas, produce, distribute and market chicken, beef, pork, prepared foods and related allied products. We commenced business in 1935, were incorporated in Arkansas in 1947, and were reincorporated in Delaware in 1986. In addition to being the world's largest processor and marketer of chicken, beef and pork products, we are also the second-largest food production company in the *Fortune* 500 with one of the most recognized brand names in the food industry.

We operate a totally integrated poultry production process. Our integrated operations consist of breeding and raising chickens, as well as processing, further-processing and marketing these food products and related allied products, including animal and pet food ingredients. Through our wholly-owned subsidiary, Cobb-Vantress, Inc. (Cobb), we are the number one poultry breeding stock supplier in the world. Investing in breeding stock research and development allows us to breed into our flocks the natural characteristics found to be most desirable.

We also process live fed cattle and hogs and fabricate dressed beef and pork carcasses into primal and sub-primal meat cuts, case-ready products and fully-cooked beef and pork products. In addition, we derive value from allied products such as hides and variety meats we sell to further processors and others.

We produce a wide range of fresh, value-added, frozen and refrigerated food products. Our products are marketed and sold, primarily by our sales staff located in Springdale, Arkansas, and Dakota Dunes, South Dakota, to national and regional grocery retailers, regional grocery wholesalers, meat distributors, clubs and warehouse stores, military commissaries, industrial food processing companies, national and regional chain restaurants or their distributors, international export companies and domestic distributors who service restaurants, foodservice operations such as plant and school cafeterias, convenience stores, hospitals and other vendors. Additionally, sales to the military and a portion of sales to international markets are made through independent brokers and trading companies.

We have been exploring ways to commercialize our supply of animal fats and poultry litter to generate energy. As a result, we announced a strategic alliance with ConocoPhillips in April 2007 and formation of a joint venture with Syntroleum Corporation in June 2007. The strategic alliance with ConocoPhillips will produce and market renewable diesel fuel. The alliance plans to use our poultry, beef and pork by-product fat to produce an on-highway transportation fuel. Production is expected to begin in the first quarter of fiscal 2008. Dynamic Fuels LLC, a 50/50 joint venture with Syntroleum Corporation, will produce renewable synthetic fuels targeting the renewable diesel, jet and military fuel markets. Construction of production facilities is expected to begin in fiscal 2008 and continue through fiscal 2009, with production targeted for 2010.

FINANCIAL INFORMATION OF SEGMENTS

We operate in four segments: Chicken, Beef, Pork and Prepared Foods. The contribution of each segment to net sales and operating income (loss), and the identifiable assets attributable to each segment, are set forth in Note 17, Segment Reporting of the Notes to Consolidated Financial Statements.

DESCRIPTION OF SEGMENTS

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

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

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

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

RAW MATERIALS AND SOURCES OF SUPPLY

Chicken: The primary raw materials used in our chicken operations consist of live chickens raised primarily by independent contract growers. Our vertically-integrated chicken process begins with the grandparent breeder flocks and ends with broilers for processing. Breeder flocks (i.e., grandparents) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are incubated at the grandparent hatchery and produce pullets (i.e., parents). Pullets are sent to breeder houses, and the resulting eggs are sent to our hatcheries. Once chicks have hatched, they are sent to broiler farms. There, contract growers care for and raise the chicks according to our standards while receiving advice from our technical service personnel until the broilers reach the desired processing weight. Adult chickens are hauled to processing plants, and finished products are sent to distribution centers then transported to customers.

We operate our own feed mills to produce scientifically-formulated feeds. In fiscal 2007, corn and soybean meal were major production costs, representing roughly 41% of our cost of growing a live chicken. In addition to feed ingredients to grow the chickens, we use cooking ingredients, packaging materials and cryogenic agents. We believe our sources of supply for these materials are adequate for our present needs and we do not anticipate any difficulty in acquiring these materials in the future. While we produce substantially our entire inventory of breeder chickens and live broilers, from time-to-time we purchase live, ice-packed or deboned chicken to meet production requirements.

Beef: The primary raw materials used in our beef operations are live cattle. We do not have facilities of our own to raise cattle in the United States. We have cattle buyers located throughout cattle producing areas who visit feed yards and buy live cattle on the open spot market. These buyers are trained to select high quality animals, and we continually measure their performance. We also enter into various risk-sharing and procurement arrangements with producers who help secure a supply of livestock for daily start-up operations at our facilities. Our Canadian subsidiary, Lakeside Farm Industries, Ltd. (Lakeside), has a cattle feeding facility, beef carcass production and boxed beef processing facility. In 2007, Lakeside's feedlot provided approximately 20% of that facility's fed cattle needs.

Pork: The primary raw materials used in our pork operations are live hogs. The majority of our live hog supply is obtained through various procurement arrangements with independent producers. We also employ buyers who purchase hogs on a daily basis, generally a few days before the animals are processed. These buyers are trained to select high quality animals, and we continually measure their performance. Additionally, we raise live swine to sell to outside processors and supply a minimal amount of live swine for our own processing needs.

Prepared Foods: The primary raw materials used in our prepared foods operations are commodity based raw materials, including chicken, beef and pork, corn, flour and vegetables. Some of these raw materials are provided by the Chicken, Beef and Pork segments, while others may be purchased from numerous suppliers and manufacturers.

SEASONAL DEMAND

Demand for chicken and beef products generally increases during the spring and summer months and generally decreases during the winter months. Pork and prepared foods products generally experience increased demand during the winter months, primarily due to the holiday season, while demand decreases during the spring and summer months.

CUSTOMERS

Wal-Mart Stores, Inc. accounted for approximately 12.9% of our fiscal 2007 consolidated sales. Sales to Wal-Mart Stores, Inc. were included in the Chicken, Beef, Pork and Prepared Foods segments. Any extended discontinuance of sales to this customer could, if not replaced, have a material impact on our operations. No other single customer or customer group represents more than 10% of fiscal 2007 consolidated sales.

COMPETITION

Our food products compete with those of other national and regional food producers and processors and certain prepared food manufacturers. Additionally, our food products compete in markets around the world.

TYSON FOODS, INC.

We seek to achieve a leading market position for our products via our principal marketing and competitive strategy, which includes:

-identifying target markets for value-added products;

-concentrating production, sales and marketing efforts to appeal to and enhance the demand from those markets; and

-utilizing our national distribution systems and customer support services.

Past efforts indicate customer demand can be increased and sustained through application of our marketing strategy, as supported by our distribution systems. The principal competitive elements are price, product safety and quality, brand identification, breadth and depth of the product offering, availability of products, customer service and credit terms.

INTERNATIONAL

We exported to more than 80 countries in fiscal 2007. Major export markets include Canada, Central America, China, the European Union, Japan, Mexico, Russia, South Korea and Taiwan.

We have the following international operations:

-Tyson de Mexico, a Mexican subsidiary, is a vertically-integrated poultry production company;

-Lakeside, a Canadian subsidiary, has a cattle feeding facility, beef carcass production, a boxed beef processing facility, a farming operation and a fertilizer operation;

-Cobb, a chicken breeding stock subsidiary, has business interests in Argentina, Brazil, the Dominican Republic, India, Japan, the Netherlands, the Philippines, Spain, the United Kingdom and Venezuela;

-a majority interest in a chicken further processing facility in China;

-a minority interest in a Chinese pork processing facility;

-a majority interest in a vertically-integrated beef operation joint venture in Argentina; however, we do not consolidate the entity due to the lack of controlling interest; and

-a technical service agreement with Grupo Melo in Panama to assist Grupo Melo with the production of further processed chicken products and to allow it to license the Tyson brand.

We continue to explore growth opportunities in foreign countries, including, but not limited to, Argentina, Brazil, China, India and Mexico, and believe each offers potential in terms of expanding or developing processing facilities. Additional information regarding export sales, long-lived assets located in foreign countries and income (loss) from foreign operations is set forth in Note 17, Segment Reporting of the Notes to Consolidated Financial Statements.

RESEARCH AND DEVELOPMENT

We conduct continuous research and development activities to improve: product development; automation of manual processes in our processing plants and growout operations; and chicken breeding stock. In 2007, we opened the Discovery Center, which includes 19 research kitchens and a USDA-inspected pilot plant. The Discovery Center brings new market-leading retail and foodservice products to the customer faster and more effectively. The annual cost of such research and development programs is not material.

ENVIRONMENTAL REGULATION AND FOOD SAFETY

Our facilities for processing chicken, beef, pork and prepared foods, milling feed and housing live chickens and swine are subject to a variety of federal, state and local environmental laws and regulations, which include provisions relating to the discharge of materials into the environment and generally provide for protection of the environment. We believe we are in substantial compliance with such applicable laws and regulations and are not aware of any violations of, or pending changes in, such laws and regulations likely to result in material penalties or material increases in compliance costs. The cost of compliance with such laws and regulations has not had a material adverse effect on our capital expenditures, earnings or competitive position and it is not anticipated to have a material adverse effect in the future.

We work to ensure our products meet high standards of food quality and safety. In addition to our own internal Food Safety and Quality Assurance oversight and review, our chicken, beef, pork and prepared foods products are subject to inspection prior to distribution, primarily by the United States Department of Agriculture (USDA) and the United States Food and Drug Administration (FDA). We are also participants in the government's Hazardous Analysis Critical Control Point (HACCP) program and are subject to the Sanitation Standard Operating Procedures and the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

TYSON FOODS, INC.

EMPLOYEES AND LABOR RELATIONS

As of September 29, 2007, we employed approximately 104,000 employees. Approximately 96,000 employees were employed in the United States and 8,000 employees were in foreign countries, primarily Mexico and Canada. Approximately 32,000 employees were subject to collective bargaining agreements with various labor unions, with approximately 11% of employees included under agreements expiring through fiscal 2008. These agreements expire over periods throughout the next several years. We believe our overall relations with our workforce are good.

MARKETING AND DISTRIBUTION

Our principal marketing objective is to be the primary provider of chicken, beef, pork and prepared foods products for our customers. We identify distinct markets and business opportunities through continuous consumer and market research. Our branding strategy focuses on one national protein brand, the Tyson brand, as well as a number of strong regional brands. All communications stress the quality, convenience and protein power benefits of our products while supporting and building brand awareness. Communication efforts are presently built around the Thank you advertising campaign and utilize a fully integrated and coordinated mix of activities designed to connect with customers and consumers on both a rational and emotional level. We utilize our national distribution system and customer support services to achieve the leading market position for our products.

We have the ability to produce and ship fresh, frozen and refrigerated products worldwide. Domestically, our distribution system extends to a broad network of food distributors, which is supported by our owned or leased cold storage warehouses, by public cold storage facilities and by our transportation system. Our distribution centers accumulate fresh and frozen products so we can fill and consolidate less-than-truckload orders into full truckloads, thereby decreasing shipping costs while increasing customer service. In addition, we provide our customers a wide selection of products that do not require large volume orders. Our distribution system enables us to supply large or small quantities of products to meet customer requirements anywhere in the continental United States. Internationally, we utilize both rail and truck refrigerated transportation to domestic ports, where consolidations take place to transport to foreign destinations. We use ocean and air transportation to meet the delivery needs of our foreign customers.

PATENTS AND TRADEMARKS

We have filed a number of patents and trademarks relating to our processes and products that either have been approved or are in the process of application. Because we do a significant amount of brand name and product line advertising to promote our products, we consider the protection of such trademarks to be important to our marketing efforts. We also have developed non-public proprietary information regarding our production processes and other product-related matters. We utilize internal procedures and safeguards to protect the confidentiality of such information and, where appropriate, seek patent and/or trademark protection for the technology we utilize.

INDUSTRY PRACTICES

Our agreements with customers are generally short-term, primarily due to the nature of our products, industry practices and fluctuations in supply, demand and price for such products. In certain instances where we are selling further processed products to large customers, we may enter into written agreements whereby we will act as the exclusive or preferred supplier to the customer for periods up to five years and on pricing terms which are either fixed or variable.

AVAILABILITY OF SEC FILINGS AND CORPORATE GOVERNANCE DOCUMENTS ON INTERNET WEBSITE

We maintain an internet website for investors at http://ir.tyson.com. On this website, we make available, free of charge, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to any of those reports, as soon as reasonably practicable after we electronically file such reports with, or furnish to, the Securities and Exchange Commission. Also available on the website for investors are the corporate governance principles, Audit Committee charter, Compensation Committee charter, Governance Committee charter and code of conduct. Our corporate governance documents are available in print, free of charge to any shareholder who requests them.

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

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

TYSON FOODS, INC.

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

ITEM 1A. RISK FACTORS

These risks, which should be considered carefully with the information provided elsewhere in this report, could materially adversely affect our business, financial condition or results of operations. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Fluctuations in commodity prices and in the availability of raw materials, especially feed grains, live cattle, live swine and energy, could negatively impact our earnings.

Our results of operations and financial condition are dependent upon the cost and supply of raw materials such as feed grains, live cattle, live swine and ingredients, as well as the selling prices for our products, many of which are determined by constantly changing market forces of supply and demand over which we have limited or no control. Corn and soybean meal are major production costs in the poultry industry, representing roughly 41% of the cost of growing a chicken in fiscal 2007. As a result, fluctuations in prices for these feed ingredients, which include competing demand for corn and soybean meal for use in the manufacture of renewable energy, can significantly affect our earnings. Production of feed ingredients is affected by, among other things, weather patterns throughout the world, the global level of supply inventories and demand for grains and other feed ingredients, as well as agricultural policies of domestic and foreign governments.

We do not have facilities of our own to raise cattle in the United States; however, our beef facility in Canada has a feed yard that supplies approximately 20% of its live cattle needs. At times in the United States, we raise a small number of cattle under contract at feed yards owned by third parties; however, most of the cattle we process are purchased from independent producers. We have cattle buyers located throughout cattle producing areas who visit feed yards and buy live cattle on the open spot market. We also enter into various risk-sharing and procurement arrangements with producers who help secure a supply of livestock for daily start-up operations at our facilities. The majority of our live swine supply is obtained through various procurement arrangements with independent producers. We also employ buyers who purchase hogs on a daily basis, generally a few days before the animals are required for processing. In addition, we raise live swine and sell feeder pigs to independent producers for feeding to processing weight and have contract growers feed a minimal amount of company-owned live swine for our own processing needs. Any decrease in the supply of cattle or swine on the spot market could increase the price of these raw materials and further increase per head cost of production due to lower capacity utilization, which could adversely affect our financial results.

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Market demand and the prices we receive for our products may fluctuate due to competition from global and domestic food processors.

We face competition from other global, national and regional food producers and processors. The factors on which we compete include:

-price;

-product safety and quality;

-brand identification;

-breadth and depth of the product offering;

-availability of our products;

-customer service; and

-credit terms.

Demand for our products also is affected by competitors promotional spending, the effectiveness of our advertising and marketing programs and the availability or price of competing proteins.

We attempt to obtain prices for our products that reflect, in part, the price we must pay for the raw materials that go into our products. If we are not able to obtain higher prices for our products when the price we pay for raw materials increases, we may be unable to maintain positive margins.

Outbreaks of livestock diseases can significantly affect our ability to conduct our operations and demand for our products.

Demand for our products can be affected significantly by outbreaks of livestock diseases, which can have a significant impact on our financial results. Efforts are taken to control disease risks by adherence to good production practices and extensive precautionary measures designed to ensure the health of livestock. However, outbreaks of disease and other events, which may be beyond our control, either in our own livestock or cattle and hogs owned by independent producers who sell livestock to us, could significantly affect demand for our products, consumer perceptions of certain protein products, the availability of livestock for purchase by us and our ability to conduct our operations. Moreover, the outbreak of livestock diseases, particularly in our Chicken segment, could have a significant effect on the livestock we own by requiring us to, among other things, destroy any affected livestock. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our fresh chicken, beef or other products to or from our suppliers, facilities or customers. This could also result in negative publicity that may have an adverse effect on our ability to market our products successfully and on our financial results.

H5N1. There has been substantial publicity regarding a highly pathogenic strain of avian influenza, known as H5N1. H5N1 has been affecting Asia since 2002 and has been found in other parts of the world as recently as 2006. It is widely believed H5N1 is spread by migratory birds, such as ducks and geese. There also have been some cases where H5N1 is believed to have passed from birds to humans, as humans came into contact with live birds infected with the disease. Public concerns about H5N1 led, for a period of time, to a reduction in demand and price for our poultry products outside of the United States. Although H5N1 has not been identified in North America, there have been outbreaks of other low pathogenic strains of avian influenza in North America, including in the United States in 2002 and 2004 and in Mexico for the past several years that, from time to time, have impacted our operations. These low pathogenic outbreaks have not generated the same level of concern or received the same level of publicity or been accompanied by the same reduction in demand for poultry products as associated with the highly pathogenic H5N1 strain. Accordingly, even if the H5N1 strain does not spread to North America, there can be no assurance it will not significantly adversely affect demand for North American produced poultry internationally and/or domestically. If it were to spread to North America, it could adversely affect our ability to conduct our operations and/or demand for our products. In each case, it could have a significant adverse effect on our financial results.

BSE. In December 2003, the United States Department of Agriculture (USDA) announced a single case of bovine spongiform encephalopathy (BSE) had been diagnosed in a Washington State dairy cow. The origin of the animal was subsequently traced to a farm in Canada. Shortly after the announcement, several countries (including Japan and South Korea) closed their borders to the importation of edible beef products from the United States. Responding to the loss of export markets, live cattle prices in the United States declined by approximately 18% during the following week. Also in 2003, the Canadian government announced the first confirmed case of BSE in Canada which led the USDA to close the United States border to the import of live Canadian cattle. This reduced the supply of live cattle available for processing at our domestic facilities and contributed to lower facility capacity utilization. The confirmed case in Canada also led several countries to close their borders to the import of edible beef products from Canada, which affected the international sales of our Lakeside, Alberta, facility. In June 2005, the USDA announced a second confirmed case of BSE in the United States and in March 2006 announced the third confirmed case, furthering uncertainty as to whether or when certain closed markets may reopen and whether or when existing open markets may close. A number of these countries subsequently reopened their borders to domestic and Canadian beef; however, some of the countries, including Japan and South Korea, have restrictive conditions that limit the types of product that can be imported.

TYSON FOODS, INC.

We are subject to risks associated with our international operations, which could negatively affect our sales to customers in foreign countries, as well as our operations and assets in such countries.

In fiscal 2007, we exported our products to more than 80 countries, including Canada, Central America, China, the European Union, Japan, Mexico, Russia, South Korea and Taiwan. Our export sales for fiscal 2007 totaled $2.7 billion. In addition, we had approximately $211 million of long-lived assets located in foreign countries, primarily Canada and Mexico, at the end of fiscal 2007. Approximately 5% of income before income taxes for fiscal 2007 was from foreign operations.

As a result, we are subject to various risks and uncertainties relating to international sales and operations, including:

- imposition of tariffs, quotas, trade barriers and other trade protection measures imposed by foreign countries regarding the import of poultry, beef and pork products, in addition to various import or export licensing requirements imposed by various foreign countries;
- closing of borders by foreign countries to the import of poultry, beef and pork products due to animal disease or other perceived health or safety issues;
- impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies, particularly the Canadian dollar, the Mexican peso, the European euro, the British pound sterling, the Brazilian real and the Chinese yuan;
- political and economic conditions;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations, including, without limitation, the Foreign Corrupt Practices Act;
- different regulatory structures and unexpected changes in regulatory environments;
- tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;
- potentially negative consequences from changes in tax laws; and
- distribution costs, disruptions in shipping or reduced availability of freight transportation.

Occurrence of any of these events in the markets where we operate or in other developing markets could jeopardize or limit our ability to transact business in those markets and could adversely affect our revenues and operating results.

We depend on the availability of, and good relations with, our employees.

We have approximately 104,000 employees, of whom approximately 32,000 are covered by collective bargaining agreements or are members of labor unions. Our operations depend on the availability and relative costs of labor and maintaining good relations with employees and the labor unions. If we fail to maintain good relations with our employees or with the unions, we may experience labor strikes or work stoppages which could adversely affect our operating results.

We depend on contract growers and independent producers to supply us with livestock.

We contract primarily with independent contract growers to raise the live chickens processed in our poultry operations. A majority of our cattle and hogs are purchased from independent producers who sell livestock to us under marketing contracts or on the open market. If we do not attract and maintain contracts with our growers, or maintain marketing relationships with independent producers, our production operations could be negatively affected.

If our products become contaminated, we may be subject to product liability claims and product recalls.

Our products may be subject to contamination by disease-producing organisms or pathogens, such as Listeria monocytogenes, Salmonella and generic E. coli. These pathogens are found generally in the environment; therefore, there is a risk they, as a result of food processing, could be present in our products. These pathogens also can be introduced to our products as a result of improper handling at the further processing, foodservice or consumer level. These risks may be controlled, but may not be eliminated, by adherence to good manufacturing practices and finished product testing. We have little, if any, control over proper handling procedures once our products have been shipped for distribution. Even an inadvertent shipment of contaminated products may be a violation of law and may lead to increased risk of exposure to product liability claims, product recalls (which may not entirely mitigate the risk of product liability claims), increased scrutiny and penalties, including injunctive relief and plant closings, by federal and state regulatory agencies, and adverse publicity, which could exacerbate the associated negative consumer reaction. Any of these occurrences may have an adverse effect on our financial results.

Our operations are subject to general risks of litigation.

We are involved on an on-going basis in litigation arising in the ordinary course of business or otherwise. Trends in litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims relating to commercial, labor, employment, antitrust, securities or environmental matters. Litigation trends and the outcome of litigation cannot be predicted with certainty and adverse litigation trends and outcomes could significantly adversely affect our financial results.

Our level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity position.

At September 29, 2007, we had approximately $2.8 billion of indebtedness outstanding. We had a borrowing capacity of $1.3 billion, consisting of $748 million available under our $1.0 billion unsecured revolving credit facility and $537 million under our accounts receivable securitization program at September 29, 2007. We expect our indebtedness, including borrowings under our credit agreements, may increase from time to time in the future for various reasons, including fluctuations in operating results, capital expenditures and possible acquisitions, joint ventures or other significant initiatives. Our consolidated indebtedness level could significantly affect our business because:

- it may significantly limit or impair our ability to obtain financing in the future;
- a downgrade in our credit rating could restrict or impede our ability to access capital markets at desired rates and increase our borrowing costs;
- it may reduce our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise;
- a portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes; and
- it may restrict our ability to pay dividends.

In addition, our debt agreements require us to meet specified financial ratios and limit our ability to enter into various transactions. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance we will meet those ratios. If we default on any of our indebtedness, or if we are unable to obtain necessary liquidity, our indebtedness would be due and payable immediately, and our business could be significantly adversely affected.

An impairment in the carrying value of goodwill could negatively impact our consolidated results of operations and net worth.

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators are present. In assessing the recoverability of goodwill, we make estimates and assumptions about sales, operating margins growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flow and marketplace data. There are inherent uncertainties related to these factors and management s judgment in applying these factors to the assessment of recoverability. Goodwill valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business and market capitalization declines. These types of events and the resulting analyses could result in goodwill impairment charges in the future. Impairment charges could substantially affect our reported earnings in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. As of September 29, 2007, we had $2.5 billion of goodwill, which represented approximately 24.3% of total assets.

Domestic and international government regulations could impose material costs.

Our operations are subject to extensive federal, state and foreign laws and regulations by authorities that oversee food safety standards and processing, packaging, storage, distribution, advertising and labeling of our products. Our facilities for processing chicken, beef, pork, prepared foods and milling feed and for housing live chickens and swine are subject to a variety of international, federal, state and local laws relating to the protection of the environment, including provisions relating to the discharge of materials into the environment, and to the health and safety of our employees. Our chicken, beef and pork processing facilities are participants in the United States government s Hazardous Analysis Critical Control Point (HACCP) program and are subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. In addition, our chicken, beef, pork and prepared foods products are subject to inspection prior to distribution, primarily by the USDA and the United States Food and Drug Administration. Loss of or failure to obtain necessary permits and registrations could delay or prevent us from meeting current product demand, introducing new products, building new facilities or acquiring new businesses and could adversely affect operating results. Additionally, we are routinely subject to new or modified laws, regulations and accounting standards. If we are found to be out of compliance with applicable laws and regulations in these or other areas, we could be subject to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a significant adverse effect on our financial results.

A material acquisition, joint venture or other significant initiative could affect our operations and financial condition.

We continually evaluate potential acquisitions, joint ventures and other initiatives (collectively, transactions), and we may seek to expand our business through the acquisition of companies, processing plants, technologies, products and services from others, which could include material transactions. A material transaction may involve a number of risks, including:

- failure to realize the anticipated benefits of the transaction;
- difficulty integrating acquired businesses, technologies, operations and personnel with our existing business;
- diversion of management attention in connection with negotiating transactions and integrating the businesses acquired;
- exposure to unforeseen or undisclosed liabilities of acquired companies; and
- the need to obtain additional debt or equity financing for any transaction, which, if obtained, could significantly affect our various financial ratios.

We may not be able to address these problems and successfully develop these acquired companies or businesses into profitable units of our company. If we are unable to do this, expansion could adversely affect our financial results.

Market fluctuations could negatively impact our operating results as we hedge certain transactions.

Our business is exposed to fluctuating market conditions. We use derivative financial instruments to reduce our exposure to various market risks including changes in commodity prices, interest rates and foreign exchange rates. We hold certain positions, primarily in grain and livestock futures, that do not qualify as hedges for financial reporting purposes. These positions are marked to fair value, and the unrealized gains and losses are reported in earnings at each reporting date. Therefore, losses on these contracts will adversely affect our reported operating results. While these contracts reduce our exposure to changes in prices for commodity products, the use of such instruments may ultimately limit our ability to benefit from favorable commodity prices.

Deterioration of economic conditions could negatively impact our business.

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Any such changes could significantly adversely affect the demand for our beef, poultry and pork products, or the cost and availability of our needed raw materials, cooking ingredients and packaging materials, thereby negatively affecting our financial results.

Changes in consumer preference could negatively impact our business.

The food industry in general is subject to changing consumer trends, demands and preferences. Trends within the food industry change often, and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for our products, and could have an adverse effect on our financial results.

The loss of one or more of our largest customers could negatively impact our business.

Our business could suffer significant set backs in revenues and operating income if our customers plans and/or markets should change significantly, or if we lost one or more of our largest customers, including, for example, Wal-Mart Stores, Inc., which accounted for approximately 12.9% of our revenues in fiscal 2007. Many of our agreements with our customers are generally short-term, primarily due to the nature of our products, industry practice and the fluctuation in demand and price for our products.

TYSON FOODS, INC.

The consolidation of customers could negatively impact our business.

Our customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years, and consolidation is expected to continue throughout the United States and in other major markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing, increased promotional programs and specifically tailored products. These customers also may use shelf space currently used for our products for their own private label products. If we fail to respond to these trends, our volume growth could slow or we may need to lower prices or increase promotional spending for our products, any of which would adversely affect our profitability.

Extreme factors or forces beyond our control could negatively impact our business.

Natural disasters, fire, bioterrorism, pandemic or extreme weather, including droughts, floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of livestock or interfere with our operations due to power outages, fuel shortages, damage to our production and processing facilities or disruption of transportation channels, among other things. Any of these factors, as well as disruptions in our information systems, could have an adverse effect on our financial results.

Our renewable energy ventures and other initiatives might not be as successful as we expect.

We have been exploring ways to commercialize animal fats and other by-products from our operations, as well as the poultry litter of our contract growers, to generate energy and other value-added products. As a result, in fiscal 2007 we announced a strategic alliance with ConocoPhillips and the formation of a joint venture with Syntroleum Corporation. We will continue to explore other ways to commercialize opportunities outside our core business, such as renewable energy and other technologically-advanced platforms. These initiatives might not be as financially successful as we initially announce or would expect due to factors that include, but are not limited to, possible discontinuance of tax credits, competing energy prices, failure to operate at the volumes anticipated, abilities of our joint venture partners and our limited experience in some of these new areas.

Members of the Tyson family can exercise significant control.

Members of the Tyson family beneficially own, in the aggregate, 99.97% of our outstanding shares of Class B Common Stock, $0.10 par value (Class B stock) and 1.27% of our outstanding shares of Class A Common Stock, $0.10 par value (Class A stock), giving them control of approximately 71% of the total voting power of our outstanding voting stock. In addition, three members of the Tyson family serve on our Board of Directors. As a result, members of the Tyson family have the ability to exert substantial influence or actual control over our management and affairs and over substantially all matters requiring action by our stockholders, including amendments to our restated certificate of incorporation and by-laws, the election and removal of directors, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. This concentration of ownership may also delay or prevent a change in control otherwise favored by our other stockholders and could depress our stock price. Additionally, as a result of the Tyson family s significant ownership of our outstanding voting stock, we have relied on the controlled company exemption from certain corporate governance requirements of the New York Stock Exchange; therefore, we have elected not to implement the rule that provides for a nominating committee to identify and recommend nominees to our Board of Directors. Pursuant to these exemptions, our compensation committee, which is made up of independent directors, does not have sole authority to determine the compensation of our executive officers, including our chief executive officer.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We have sales offices and production and distribution operations in the following states: Alabama, Arkansas, Arizona, California, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Mississippi, Missouri, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington and Wisconsin. Additionally, we, either directly or through our subsidiaries, have facilities in or participate in joint venture operations in Argentina, Brazil, Canada, China, the Dominican Republic, India, Japan, Mexico, the Netherlands, the Philippines, Puerto Rico, Russia, South Korea, Spain, Taiwan, the United Arab Emirates, the United Kingdom and Venezuela.

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	Number of Facilities		
	Owned	Leased	Total
Chicken Segment:			
Processing plants	51	-	51
Rendering plants	9	-	9
Blending mills	2	-	2
Feed mills	36	-	36
Broiler hatcheries	61	3	64
Breeder houses	273	512	785
Broiler farm houses	495	736	1,231
Beef Segment:			
Production facilities	13	-	13
Canadian feedlot	1	-	1
Pork Segment Production Facilities	9	-	9
Prepared Foods Segment Processing Plants	24	2	26
Other:			
Distribution centers	7	1	8
Cold Storage facilities	60	-	60

	Capacity per week at September 29, 2007	Fiscal 2007 Average Capacity Utilization
Chicken processing plants	46 million head	91%
Beef production facilities	222,000 head	81%
Pork production facilities	444,000 head	83%
Prepared foods processing plants	59 million pounds	74%

Chicken: Chicken processing plants include various phases of slaughtering, dressing, cutting, packaging, deboning and further-processing. We also have 16 pet food operations, which are part of the Chicken processing plants. The blending mills, feed mills and broiler hatcheries have sufficient capacity to meet the needs of the chicken growout operations.

Beef: Beef plants include various phases of slaughtering live cattle and fabricating beef products. Some also treat and tan hides. The Beef segment includes three case-ready operations that share facilities with the Pork segment. One of the beef facilities contains a tallow refinery. Carcass facilities reduce live cattle to dressed carcass form. Processing facilities conduct fabricating operations to produce boxed beef and allied products.

Pork: Pork plants include various phases of slaughtering live hogs and fabricating pork products and allied products. The Pork segment includes three case-ready operations that share facilities with the Beef segment.

Prepared Foods: Prepared Foods plants process fresh and frozen beef, pork, chicken and other raw materials into pizza toppings, branded and processed meats, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, pizza crusts, flour and corn tortilla products and meat dishes.

We believe our present facilities are generally adequate and suitable for our current purposes; however, seasonal fluctuations in inventories and production may occur as a reaction to market demands for certain products. We regularly engage in construction and other capital improvement projects intended to expand capacity and improve the efficiency of our processing and support facilities.

ITEM 3. LEGAL PROCEEDINGS

Refer to the discussion of our certain legal proceedings pending against us under Part II, Item 8, Notes to Consolidated Financial Statements, Note 20: Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings for which we are involved.

TYSON FOODS, INC.

On October 23, 2001, a putative class action lawsuit styled *R. Lynn Thompson, et al. vs. Tyson Foods, Inc.* was filed in the District Court for Mayes County, Oklahoma by three property owners on behalf of all owners of lakefront property on Grand Lake O the Cherokee. Simmons Foods, Inc. and Peterson Farms, Inc. also are defendants. The plaintiffs allege the defendants operations diminished the water quality in the lake thereby interfering with the plaintiffs use and enjoyment of their properties. The plaintiffs sought injunctive relief and an unspecified amount of compensatory damages, punitive damages, attorneys fees and costs. While the District Court certified a class, on October 4, 2005, the Court of Civil Appeals of the State of Oklahoma reversed, holding the plaintiffs claims were not suitable for disposition as a class action. This decision was upheld by the Oklahoma Supreme Court and the case was remanded to the District Court with instructions that the matter proceed only on behalf of the three named plaintiffs. On May 24, 2006, three of the plaintiffs filed a third amended petition, which drops plaintiffs class allegations, but seeks injunctive relief, restitution and compensatory and punitive damages in an unspecified amount in excess of $10,000. We and the other defendants have filed answers.

In May 2004, representatives of our subsidiary, Tyson Fresh Meats, Inc. (TFM), met with the U.S. Environmental Protection Agency (USEPA) staff to discuss alleged wastewater and late report filing violations under the Clean Water Act relating to the 2002 Second and Final Consent Decree that governed compliance requirements for TFM s Dakota City, Nebraska, facility. During that meeting, USEPA advised TFM that the USEPA may assess stipulated penalties up to a maximum of approximately $338,000 for those alleged violations. To date, the USEPA has made no formal written demand for stipulated penalties pursuant to the Consent Decree. TFM vigorously disputes these allegations and expects to conduct additional discussions with USEPA regarding a potential settlement of this matter.

On January 9, 2003, we received a notice of liability letter from Union Pacific Railroad Company relating to our alleged contributions of waste oil to the Double Eagle Refinery Superfund Site in Oklahoma City, Oklahoma. On August 22, 2006, the United States and the State of Oklahoma filed a lawsuit styled *United States of America, et al. v. Union Pacific Railroad Co.* against Union Pacific in the U. S. District Court for the Western District of Oklahoma seeking more than $22 million to remediate the Double Eagle site. We joined a potentially responsible parties group on October 31, 2006, which is in settlement discussions with the United States and the State of Oklahoma. Our participation in this group, which likely will not exceed $625,586.20, should prevent us from being sued for contribution by Union Pacific.

On June 19, 2005, the Attorney General of Oklahoma filed a complaint in the U.S. District Court for the Northern District of Oklahoma against us, three of our subsidiaries and several other poultry integrators. This complaint was subsequently amended. As amended, the complaint asserts state and federal causes of action for alleged pollution to the Illinois River Watershed from the land application of poultry litter by the defendants and certain contract growers who are not named in the complaint. The Attorney General seeks injunctive relief and compensatory and punitive damages. We and the other defendants have filed answers and motions to dismiss several of the claims, as well as a third-party complaint that asserts claims against other persons and entities whose activities may have contributed to the pollution alleged in the Attorney General s complaint. We have also asserted various defenses to claims asserted in the Attorney General s complaint. On November 14, 2007, the Attorney General filed a motion requesting a preliminary injunction to halt poultry litter land application in the Illinois River Watershed. We dispute the allegations within the motion and believe we have substantial defenses to the claims made. Discovery must be completed by July 1, 2008, and trial is scheduled for January 2009.

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In August 2004, we received a subpoena requesting the production of documents from a federal grand jury sitting in the Western District of Arkansas. The subpoena focused on events surrounding a workplace accident on October 10, 2003, that resulted in the death of one of our employees at the River Valley Animal Foods rendering plant in Texarkana, Arkansas. That workplace fatality had previously been the subject of an investigation by the Occupational Health and Safety Administration (OSHA) of the Department of Labor. On April 9, 2004, OSHA issued citations to us and our subsidiary Tyson Poultry, Inc., d/b/a River Valley Animal Foods, alleging violations of health and safety standards arising from the death of the employee due to hydrogen sulfide inhalation. The citations consist of five willful, 12 serious and two recordkeeping violations. OSHA seeks abatement of the alleged violations and proposed penalties of $436,000. The OSHA proceeding was stayed pending the completion of the grand jury investigation. Since the receipt of the document subpoena, a number of our employees have provided grand jury testimony or informal interviews to government investigators. Federal officials have not yet indicated whether they intend to pursue any action against us in connection with this investigation.

In July 2002, certain cattle producers filed a lawsuit styled *Herman Schumacher, et al. vs. Tyson Fresh Meats, Inc., et al.* in the U.S. District Court for the District of South Dakota seeking certification of a class of cattle producers and naming as defendants our subsidiary TFM and three other beef packers. The plaintiffs allege that in 2001, during the first six weeks the USDA began its mandatory price reporting program, defendants knowingly used the inaccurate boxed beef cutout prices (cutout prices are determined by the USDA through a formula that averages the prices of the various box beef cuts reported by all packers) calculated and published by the USDA to negotiate the purchase of fed cattle from plaintiffs at prices substantially lower than would have been economically justified had plaintiffs known the accurate higher cutout prices. Plaintiffs contend defendants conduct constituted an unfair or deceptive practice or was engaged in for the purpose or with the effect of manipulating or controlling prices in violation of the Packers and Stockyards Act (PSA), 7 U.S.C. §192. The USDA stated that, during the period in question, the beef packers correctly reported beef sales information to the USDA and TFM believes it acted appropriately in its dealings with cattle producers. Trial in this matter commenced on March 31, 2006, and a jury verdict was returned against TFM and two of the other three defendants for $4,000,000. However, this amount was based on all sales and not just those of the class. TFM, together with the other defendants, filed a motion in the District Court seeking judgment as a matter of law. That motion was denied. On February 15, 2007, the District Court entered judgment against TFM and the other defendants. On March 12, 2007, TFM filed its Notice of Appeal to the United States Court of Appeals for the Eighth Circuit. Arguments were held November 14, 2007, in front of the Court of Appeals.

On January 12, 2006, the Delaware Chancery Court consolidated two previously filed lawsuits and captioned the consolidated action *In re Tyson Foods, Inc. Consolidated Shareholder s Litigation*. The defendants in the consolidated complaint are the Tyson Limited Partnership and certain present and former directors of the Company. We are also named as a nominal defendant; however, no relief is sought against us. The lawsuit consists of various derivative claims alleging that the defendants breached their fiduciary duties in connection with the approval of certain consulting contracts for Don Tyson in 2001 and 2004 and Robert Peterson in 2001; the approval and alleged inadequate disclosure during 2001-2004 of certain executive compensation provided; the approval of certain stock option grants in 1999, 2001 and 2003 which were allegedly "timed" to precede favorable announcements; and related-party transactions that were allegedly unfair and allegedly not reviewed or inadequately reviewed by independent directors. The consolidated complaint also asserts, among other things, an additional derivative claim related to defendants alleged breach of a 1997 settlement agreement in *Herbets v. Tyson, et al.*, a derivative claim for contempt of the court s final order in *Herbets v. Tyson, et al.,* and a derivative claim for unjust enrichment pertaining to the other alleged claims. In addition, the consolidated complaint contains a putative class action claim that our 2004 proxy statement contained misrepresentations regarding certain executive compensation. On March 2, 2006, the defendants filed a Motion to Dismiss the consolidated complaint. On February 6, 2007, the court entered an order granting in part and denying in part the defendants motion, including dismissing in whole the claims pertaining to the consulting contracts, contempt of the court s final order in *Herbets v. Tyson, et al.,* and the putative class action claim, and dismissing in part certain of plaintiffs' claims regarding the approval and disclosure of executive compensation and the related-party transactions, but declining to dismiss the remaining claims. On May 16, 2007 the outside director defendants filed a motion for judgment on the pleadings regarding the count dealing with option grants. The court denied the outside directors motion on August 15, 2007. Discovery in the case is ongoing.

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We currently have pending five separate wage and hour actions involving TFM s plants located in Lexington, Nebraska (*Dimas Lopez, et al. v. Tyson Foods, Inc.,* District of Nebraska, June 30, 2006), Garden City and Emporia, Kansas (*Adelina Garcia, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc.*, District of Kansas, May 15, 2006), Denison and Storm Lake, Iowa (*Sharp, et al. v. Tyson Foods, Inc.*, (W.D. Iowa, February 6, 2007), Boise, Idaho (*Miguel Victorio, et al. v. Tyson Foods, Inc., and Tyson Fresh Meats, Inc*, S.D. Idaho, September 11, 2007), and Columbus Junction, Iowa (*Gary Ray Robinson, et al. v. Tyson Foods, Inc., d/b/a Tyson Fresh Meats, Inc.*, S.D. Iowa, September 12, 2007). The actions allege TFM failed to pay employees for all hours worked, including overtime compensation for the time it takes to change into protective work uniforms, safety equipment and other sanitary and protective clothing worn by employees, and for walking to and from the changing area, work areas and break areas in violation of the Fair Labor Standards Act and analogous state laws. The plaintiffs seek back wages, liquidated damages, pre- and post-judgment interest, attorneys fees and costs. TFM filed a motion for partial summary judgment in *Garcia*, based upon an injunction entered in *Reich v. IBP*, which outlined the types of activities at issue here that are compensable. The District Court of Kansas denied the motion, and TFM appealed to the Tenth Circuit Court of Appeals, arguing that the District Court s ruling had the effect of improperly modifying the injunction.

On April 2, 2002, four former employees of our Shelbyville, Tennessee, chicken processing plant filed a putative class action complaint styled *Trollinger et al. v. Tyson Foods, Inc.* in the U.S. District Court for the Eastern District of Tennessee against us alleging that we, in conjunction with employment agencies and recruiters, engaged in a scheme to hire illegal immigrant workers in 15 of its processing plants to depress wages paid to hourly wage employees at those plants in violation of the federal Racketeer Influenced and Corrupt Practices Act (RICO). On July 16, 2002, the District Court dismissed the case. Following appeal, on June 3, 2004 the Sixth Circuit Court of Appeals reversed the District Court s dismissal decision and remanded the case for further proceedings. Discovery has been on-going since September 2004. In June 2005, plaintiffs filed a second amended complaint which included different plaintiffs, narrowed the list of plants at issue to eight and added an allegation that we conspired with certain Hispanic civil rights groups to hire illegal immigrant workers. In addition, the second amended complaint added as defendants John Tyson, Richard Bond, Greg Lee, Archibald Schaffer III, Kenneth Kimbro, Karen Percival, Tim McCoy and Ahrazue Wilt, all of whom are current or former officers or managers of the Company. On August 5, 2005, plaintiffs sought certification of a putative class of all hourly wage employees at the eight Company plants since 1998 who were legally authorized to be employed in the United States. On October 10, 2006, the District Court granted plaintiffs motion for class certification. On October 24, 2006, defendants filed with the Sixth Circuit Court of Appeals a petition for interlocutory review of the District Court s class certification decision. That petition is pending. Discovery continues in the case, and a trial date of March 3, 2008, has been set by the District Court.

In November 2006, the Audit Committee of our Board of Directors engaged outside counsel to conduct a review of certain payments that had been made by one of our subsidiaries in Mexico, including payments during the periods covered by this annual report on Form 10-K to individuals employed by Mexican governmental bodies. The payments were discontinued in November 2006. Although the review process is ongoing, we believe the amount of these payments is immaterial, and we do not expect any material impact to our financial statements. We have contacted the Securities and Exchange Commission and the U.S. Department of Justice to inform them of our review and preliminary findings, and intend to cooperate fully with these governmental authorities.

Other Matters: We currently have approximately 104,000 employees and, at any time, have various employment practices matters outstanding. In the aggregate, these matters are significant to the Company, and we devote significant resources to managing employment issues. Additionally, we are subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on our consolidated results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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TYSON FOODS, INC.

EXECUTIVE OFFICERS OF THE COMPANY

Our Officers serve one year terms from the date of their election, or until their successors are appointed and qualified. No family relationships exist among these officers. The name, title, age and year of initial election to executive office of our executive officers are listed below:

Name	Title	Age	Year Elected
Richard L. Bond	President and Chief Executive Officer	60	2001
J. Alberto Gonzalez-Pita	Executive Vice President and General Counsel	53	2004
Richard A. Greubel, Jr.	Group Vice President and International President	45	2007
Craig Hart	Senior Vice President, Controller and Chief Accounting Officer	51	2004
Donnie D. King	Group Vice President, Poultry and Prepared Foods Operations	45	2007
Dennis Leatherby	Senior Vice President, Finance and Treasurer	47	1994
Bernard Leonard	Group Vice President, Food Service	55	2007
James V. Lochner	Senior Group Vice President, Fresh Meats and Margin Optimization	55	2005
Scott D. McNair	Group Vice President, Consumer Products	44	2007
Wade Miquelon	Executive Vice President and Chief Financial Officer	43	2006

Mr. Richard L. Bond was appointed President and Chief Executive Officer in May 2006, after serving as President and Chief Operating Officer since 2003 and Co-Chief Operating Officer and Group President, Fresh Meats and Retail since 2001. Mr. Bond was initially employed by IBP, inc. (IBP) in 1980. IBP merged into a wholly-owned subsidiary of the Company on September 28, 2001. Mr. Bond is also a member of our Board of Directors.

Mr. J. Alberto Gonzalez-Pita was appointed Executive Vice President and General Counsel in October 2004, after serving as General Counsel and Vice President for International Legal, Regulatory & External Affairs at BellSouth Corporation since 1999.

Mr. Richard A. Greubel, Jr. was appointed Group Vice President and International President in May 2007, after serving as Group Vice President, International since August 2006, and President and Managing Director for Monsanto s Brazil business since 2001.

Mr. Craig Hart was appointed Senior Vice President, Controller and Chief Accounting Officer in September 2004 after serving as Vice President of Special Projects since 2001. Mr. Hart was initially employed by IBP in 1978.

Mr. Donnie D. King was appointed Group Vice President, Poultry and Prepared Foods Operations in March 2007 after serving as Senior Vice President, Consumer Products Operations since March 2006, Senior Vice President, Food Service Operations since July 2003, and Vice President and General Manager, Refrigerated and Deli since 2001. Mr. King was initially employed by the Company in 1982.

Mr. Dennis Leatherby was appointed Senior Vice President, Finance and Treasurer in June 2006, after serving as Senior Vice President, Finance and Treasurer and Interim Chief Financial Officer since July 2004 and Senior Vice President, Finance and Treasurer since 1998. Mr. Leatherby was initially employed by the Company in 1990.

Mr. Bernard Leonard was appointed Group Vice President, Food Service in November 2006, after serving as Senior Vice President, National Accounts since 2000. Mr. Leonard was initially employed by the Company in 1998.

Mr. James V. Lochner was appointed Senior Group Vice President, Fresh Meats and Margin Optimization in May 2006, after serving as Senior Group Vice President, Margin Optimization, Purchasing and Logistics since October 2005, Group Vice President, Purchasing, Travel, and Aviation since November 2004 and Group Vice President, Fresh Meats since 2001. Mr. Lochner was initially employed by IBP in 1983.

Mr. Scott D. McNair was appointed Group Vice President, Consumer Products in May 2007, after serving as Senior Vice President, Case Ready Meats and Wholesale Clubs since March 2006, Senior Vice President Wholesale Clubs since August 2003 and Vice President, Sales Wholesale Clubs since his initial employment with the Company in 2000.

Mr. Wade Miquelon was appointed Executive Vice President and Chief Financial Officer in June 2006, after serving as Chief Financial Officer for Procter & Gamble s Western European business since October 2003 and CFO and Senior Director for Procter & Gamble s 42 country ASEAN, Australia and India Region since 2001.

TYSON FOODS, INC.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We have issued and outstanding two classes of capital stock, Class A stock and Class B stock. Holders of Class B stock may convert such stock into Class A stock on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. As of October 27, 2007, there were approximately 34,000 holders of record of the Company's Class A stock and 12 holders of record of the Company's Class B stock, excluding holders in the security position listings held by nominees.

DIVIDENDS

Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock. We have paid uninterrupted quarterly dividends on common stock each year since 1977 and expect to continue our cash dividend policy during fiscal 2008. In both fiscal 2007 and 2006, the annual dividend rate for Class A stock was $0.16 per share and the annual dividend rate for Class B stock was $0.144 per share.

MARKET INFORMATION

The Class A stock is traded on the New York Stock Exchange under the symbol TSN. No public trading market currently exists for the Class B stock. The high and low closing sales prices of our Class A stock for each quarter of fiscal 2007 and 2006 are represented in the table below.

	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
First Quarter	$ 17.00	$ 14.20	$ 18.70	$ 16.29
Second Quarter	19.41	15.73	16.89	12.94
Third Quarter	24.08	19.62	17.16	12.92
Fourth Quarter	23.91	17.85	16.62	13.13

ISSUER PURCHASES OF EQUITY SECURITIES

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

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)**
July 1 to July 28, 2007	172,893	$23.46	-	22,474,439
July 29 to Sept. 1, 2007	100,659	21.17	-	22,474,439
Sept. 2 to Sept. 29, 2007	48,839	20.23	-	22,474,439
Total	(2) 322,391	$22.25	-	22,474,439

(1) On February 7, 2003, we announced our board of directors approved a plan to repurchase up to 25 million shares of Class A stock from time to time in open market or privately negotiated transactions. The plan has no fixed or scheduled termination date.

(2) We purchased 322,391 shares during the period that were not made pursuant to our previously announced stock repurchase plan, but were purchased to fund certain company obligations under our equity compensation plans. These transactions included 285,747 shares purchased in open market transactions and 36,644 shares withheld to cover required tax withholdings on the vesting of restricted stock.

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ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL SUMMARY

in millions, except per share and ratio data

	2007	2006	2005	2004	2003
Summary of Operations					
Sales	$26,900	$25,559	$26,014	$26,441	$24,549
Operating income (loss)	614	(77)	745	917	832
Net interest expense	224	238	227	275	296
Income (loss) before cumulative effect of change in accounting principle	268	(191)	372	403	337
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	0.75	(0.56)	1.04	1.13	0.96
Cumulative effect of change in accounting principle, net of tax	-	(5)	-	-	-
Diluted loss per share of cumulative effect of change in accounting principle, net of tax	-	(0.02)	-	-	-
Net income (loss)	268	(196)	372	403	337
Diluted earnings (loss) per share	0.75	(0.58)	1.04	1.13	0.96
Dividends per share:					
Class A	0.160	0.160	0.160	0.160	0.160
Class B	0.144	0.144	0.144	0.144	0.144
Depreciation and amortization	514	517	501	490	458
Balance Sheet Data					
Total assets	$10,227	$11,121	$10,504	$10,464	$10,486
Total debt	2,779	3,979	2,995	3,362	3,604
Shareholders' equity	4,731	4,440	4,671	4,292	3,954
Other Key Financial Measures					
Capital expenditures	$285	$531	$571	$486	$402
Return on invested capital	7.7%	(1.0)%	9.7%	12.1%	10.9%
Effective tax rate	34.6%	34.8%	29.5%	36.6%	35.5%
Total debt to capitalization	37.0%	47.3%	39.1%	43.9%	47.7%
Book value per share	$13.31	$12.51	$13.19	$12.19	$11.21
Closing stock price high	24.08	18.70	19.47	21.06	14.42
Closing stock price low	14.20	12.92	14.12	12.59	7.28

Notes to Five-Year Financial Summary

a. Fiscal 2007 includes tax expense of $17 million related to a fixed asset tax cost correction, primarily related to a fixed asset system conversion in 1999.

b. Fiscal 2006 includes $63 million of pretax charges primarily related to closing one poultry plant, two beef plants and two prepared foods plants.

c. Fiscal 2005 includes $33 million of pretax charges related to a legal settlement involving our live swine operations, a non-recurring income tax net benefit of $15 million including benefit from the reversal of certain income tax reserves, partially offset by an income tax charge related to the one-time repatriation of foreign income under the American Jobs Creation Act and $14 million of pretax charges primarily related to closing two poultry plants and one prepared foods plant. Additionally, the effective tax rate was affected by the federal income tax effect of the Medicare Part D subsidy in fiscal 2005 of $55 million because this amount was not subject to federal income tax.

d. Fiscal 2004 includes $61 million of pretax BSE-related charges, $40 million of pretax charges primarily related to closing one poultry and three prepared foods operations, $25 million of pretax charges related to the impairment of intangible assets and $21 million of pretax charges related to fixed asset write-downs.

e. Fiscal 2004 was a 53-week year, while the other years presented were 52-week years.

f. Fiscal 2003 includes $167 million of pretax gains related to vitamin antitrust litigation settlements received and $76 million of pretax charges related to closing four poultry operations.

g. Return on invested capital is calculated by dividing operating income (loss) by the sum of the average of beginning and ending total debt and shareholders equity.

h. The 2006 total debt to capitalization ratio is not adjusted for the $750 million short-term investment we had on deposit at September 30, 2006. When adjusted for the $750 million short-term investment, the debt to capitalization ratio was 42.1%.

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TYSON FOODS, INC.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DESCRIPTION OF THE COMPANY

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

OVERVIEW

In fiscal 2007, we had significant improvements in all segments. In total, operating income improved by $691 million from last year. The following are some of the highlights for fiscal 2007:

Chicken Segment - Despite increased grain costs in fiscal 2007, our Chicken segment results improved largely due to increased average sales prices, partially offset by a decrease in sales volumes. Additionally, we sold two commodity chicken plants in May 2007 and did not rebuild another chicken plant closed due to a fire in late fiscal 2006.

Beef Segment - Operating cost efficiencies and yield improvements led to improved operating margins. Beef segment operating cost efficiencies benefited from closure of three beef plants, two of which were closed in fiscal 2006 and another which closed in early fiscal 2007.

Pork Segment Operating cost efficiencies and yield improvements led to improved operating margins.

Prepared Foods Segment Improvements in our Prepared Foods segment were primarily due to increased average sales prices.

We achieved savings goal related to the Cost Management Initiative.

Total debt outstanding at September 29, 2007, was reduced to $2.8 billion, which is the lowest debt level since our acquisition of IBP, inc. in 2001.

	in millions, except per share data		
	2007	2006	2005
Net income (loss)	$ 268	$ (196)	$ 372
Net earnings (loss) per diluted share	0.75	(0.58)	1.04

2007 Net income includes the following item:

$17 million of tax expense related to a fixed asset tax cost correction, primarily related to a fixed asset system conversion in 1999.

2006 Net loss includes the following items:

$63 million of costs related to beef, prepared foods and poultry plant closings;

- $19 million of charges related to our Cost Management Initiative and other business consolidation efforts which included severance expense, product rationalization costs and related intangible asset impairment expenses;
- $15 million tax expense resulting from a review of our tax account balances; and
- $5 million charge related to the cumulative effect of a change in accounting principle due to adoption of Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47).

2005 Net income includes the following items:

- The effective tax rate benefited from the federal income tax effect of the Medicare Part D subsidy in fiscal 2005 of $55 million because this amount was not subject to federal income tax;
- $15 million non-recurring income tax net benefit, which includes the reversal of tax reserves, partially offset by an income tax charge related to the repatriation of foreign income;
- $33 million of costs related to a legal settlement involving our live swine operations; and
- $14 million of costs for poultry and prepared foods plant closings.

TYSON FOODS, INC.

OUTLOOK

The following elements comprise our long-term strategic plan:

- Create innovative and insight-driven food solutions discover and sell market-leading products and services to grow Tyson s brand equity and help our customers succeed through our commitment to joint value creation
- Optimize commodity business models emphasize cost focus in operations, manage margins and maximize revenue by capitalizing on scale, yield, pricing, product mix and services
- Build a multi-national enterprise accelerate expansion in cost competitive regions and markets with the greatest growth potential as well as increase and diversify United States exports
- Revolutionize conversion of raw materials and by-products into high-margin initiatives commercialize opportunities outside the core business, such as renewable energy and other technologically-advanced platforms

In fiscal 2007, we announced a strategic alliance with ConocoPhillips, which will produce and market renewable diesel fuel. The alliance plans to use our poultry, beef and pork by-product fat to produce an on-highway transportation fuel. Production is expected to begin in the first quarter of fiscal 2008. We do not expect this alliance to have a significant impact to our earnings in fiscal 2008.

Also in fiscal 2007, we formed a 50/50 joint venture with Syntroleum Corporation. The joint venture, Dynamic Fuels LLC, will produce renewable synthetic fuels targeting the renewable diesel, jet and military fuel markets. Construction of production facilities is expected to begin in fiscal 2008 and continue through fiscal 2009, with production targeted for 2010.

We are working to potentially close two integrated poultry joint ventures in China, as well as an integrated poultry deal in Brazil. We expect to close two of these transactions by the end of the second quarter of fiscal 2008, with the third to be completed in the third quarter of fiscal 2008.

Our outlook for fiscal 2008 includes:

- Diluted earnings per share in the range of $0.30 to $0.70
- Sales expected to be approximately $28 billion
- Capital spending of $425 - $475 million
- Net interest expense of approximately $200 million

Our outlook for segments in fiscal 2008 includes:

- Chicken We expect to participate in the increase of industry-wide chicken supplies, which we think will be up 3-4% over fiscal 2007. Based on our current sales projections, we plan to increase our production volume to meet our customers needs. However, we anticipate an increase in grain costs in excess of $300 million, as compared to fiscal 2007, which we will be working to mitigate through risk management and pricing.
- Beef We expect to continue building on the operational execution improvements from fiscal 2007; however, the beginning of fiscal 2008 has been a very difficult and volatile environment for the industry. The current environment is the result of the industry processing too much cattle relative to supply and demand, which has a negative impact to operating margins. Historically, these conditions have had a limited duration.
- Pork We expect an increase in pork supplies of between 1-2%, which should lead to better results in fiscal 2008, as compared to fiscal 2007.
- Prepared Foods We expect improvements in fiscal 2008 compared to fiscal 2007, as our SKU rationalization project is almost complete. Additionally, we anticipate lower pork raw material costs in fiscal 2008.

TYSON FOODS, INC.

SUMMARY OF RESULTS

Sales	in millions		
	2007	2006	2005
Sales	$ 26,900	$ 25,559	$ 26,014
Change in average sales price	6.2 %	(3.9)%	
Change in sales volume	(0.9)%	2.3 %	
Sales growth (decline)	5.2 %	(1.7)%	

2007 vs. 2006

The improvement in sales was largely due to improved average sales prices, which accounted for an increase of approximately $1.5 billion in sales. The improvement is due to better market conditions in all segments, with the majority of the increase attributable to the Chicken and Beef segments.

Sales were negatively impacted by a slight decrease in sales volumes, which accounted for a decrease of approximately $181 million. The decrease was driven by decreases in the Chicken and Prepared Foods segments, offset by improvements in the Beef and Pork segments. The decrease includes planned production cuts and the closure of production facilities, offset by improvements in the beef and pork export markets and improved domestic pork demand.

2006 vs. 2005

An oversupply of proteins led to decreased average sales prices in all segments.

Cost of Sales	in millions		
	2007	2006	2005
Cost of sales	$ 25,467	$ 24,631	$ 24,294
Gross margin	$ 1,433	$ 928	$ 1,720
Cost of sales as a percentage of sales	94.7 %	96.4 %	93.4 %

2007 vs. 2006

Decrease in cost of sales as a percentage of sales primarily was due to the increase in average sales prices, while average live prices and production costs did not increase at the same rate.

Cost of sales increased by $836 million, with an increase in cost per pound contributing to a $982 million increase, offset by a decrease in sales volumes reducing cost of sales by $146 million.

- Increase in net grain costs of $256 million, which includes $334 million of increased grain costs, partially offset by increased net gains of $78 million from our commodity risk management activities related to grain purchases.
- Increase in average domestic live cattle and hog costs, as well as an increase in domestic pork sales volumes and our Lakeside operation sales volumes, increased cost of sales by approximately $797 million.
- Decrease in Chicken segment sales volumes decreased cost of sales by approximately $346 million, primarily due to planned production cuts, the sale of two poultry plants and the closure of a poultry plant in fiscal 2006 due to a fire.

2006 vs. 2005

Increase in cost of sales as a percentage of sales primarily was due to the decrease in average sales prices, while average live prices and production costs did not decrease at the same rate.

Increase of approximately $167 million related to energy costs.

TYSON FOODS, INC.

Selling, General and Administrative	in millions		
	2007	2006	2005
Selling, general and administrative	$ 817	$ 935	$ 928
As a percentage of sales	3.0 %	3.7 %	3.6 %

2007 vs. 2006

Decrease of $39 million in advertising and sales promotion expenses.

Decrease of $27 million due to a favorable actuarial adjustment related to retiree healthcare plan recorded in fiscal 2007 compared to an unfavorable adjustment recorded in fiscal 2006.

Decrease of $15 million in other professional fees.

Decrease of $18 million due to a gain recorded in fiscal 2007 on the disposition of an aircraft, as well as favorable investment returns on company-owned life insurance.

We had various other savings recognized as part of our Cost Management Initiative. These savings are in addition to some of the decreases above and include management salaries, travel, relocation and recruiting, personnel awards, as well as other various savings.

Increase of $18 million in earnings-based incentive compensation.

2006 vs. 2005

Increase of $10 million in stock compensation expense (primarily as a result of the adoption of Statement of Financial Accounting Standards No. 123R, Share-Based Payment).

Increase of $10 million related to insurance proceeds received in fiscal 2005 and increased information system services costs.

Decrease of $9 million related to charitable contributions.

Other Charges	in millions		
	2007	2006	2005
	$ 2	$ 70	$ 47

2006

Includes $47 million of charges related to closing our Norfolk and West Point, Nebraska, operations.

Includes $14 million of charges related to closing our Independence and Oelwein, Iowa, operations.

Includes $9 million of severance accruals related to our Cost Management Initiative announced in July 2006.

2005

Includes $33 million of charges related to a legal settlement involving our live swine operations.

Includes $14 million of charges related to closing our Cleveland Street Forest, Mississippi; Portland, Maine; and Bentonville, Arkansas, operations.

Interest Income	in millions		
	2007	2006	2005
	$ 8	$ 30	$ 10

2006 Includes $20 million of interest earned on the $750 million short-term investment held on deposit with a trustee used for the repayment of the 7.25% Notes maturing on October 1, 2006.

TYSON FOODS, INC.

Interest Expense	in millions		
	2007	2006	2005
Interest expense	$ 232	$ 268	$ 237
Average borrowing rate	7.4 %	7.4 %	7.5 %
Change in average weekly debt	(15.9)%	15.8 %	
Capitalized interest	$ 2	$ 8	$ 6

2006 - The increase in interest expense primarily was due to the $1.0 billion senior unsecured notes borrowing at the end of the second quarter of fiscal 2006. We used $750 million of the proceeds from the borrowing for the repayment of the 7.25% Notes maturing on October 1, 2006.

Other Income	in millions		
	2007	2006	2005
	$ (20)	$ (22)	$ (10)

2007

Includes $12 million in foreign currency exchange gain.

2006

Includes $7 million gain recorded on the write-off of a capital lease obligation related to a legal settlement.

Includes $7 million in foreign currency exchange gain.

2005

Includes $8 million gain from the sale of our remaining interest in Specialty Brands, Inc.

Effective Tax Rate			
	2007	2006	2005
	34.6 %	34.8 %	29.5 %

2007

Increased the effective tax rate 4.2% due to a fixed asset tax cost correction, primarily related to a fixed asset system conversion in 1999.

Increased the effective tax rate 3.2% due to the federal income tax effect of the reductions in estimated Medicare Part D subsidy in fiscal 2007, which is not deductible for federal income tax purposes.

Reduced the effective tax rate 4.6% due to the reduction of income tax reserves based on favorable settlement of disputed matters.

2006

Reduced the effective tax rate 5.1% due to expense recorded in fiscal 2006 as a result of the tax account balance review.

Reduced the effective tax rate 1.8% due to the federal income tax effect of the reductions in estimated Medicare Part D subsidy in fiscal 2006, which is not deductible for federal income tax purposes.

2005

Reduced the effective tax rate 4.1% due to the reduction of income tax reserves based on favorable settlement of disputed matters.

Reduced the effective tax rate 3.6% related to the fiscal 2005 estimated future Medicare Part D subsidy.

Increased the effective tax rate 4.2% related to the repatriation of earnings of foreign subsidiaries as allowed by the American Jobs Creation Act.

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TYSON FOODS, INC.

Cumulative Effect of Change in Accounting Principle, Net of Tax	in millions		
	2007	2006	2005
	$ -	$ 5	$ -

2006 Transition charge related to the adoption of FIN 47.

SEGMENT RESULTS

We operate in four segments: Chicken, Beef, Pork and Prepared Foods. The following table is a summary of sales and operating income (loss), which is how we measure segment income (loss).

	Sales			in millions Operating Income (Loss)		
	2007	2006	2005	2007	2006	2005
Chicken	$ 8,188	$ 7,928	$ 8,295	$ 280	$ 53	$ 582
Beef	12,703	11,825	11,618	35	(296)	(12)
Pork	3,309	3,060	3,247	135	47	47
Prepared Foods	2,660	2,692	2,801	81	45	78
Other	40	54	53	83	74	50
Total	$ 26,900	$ 25,559	$ 26,014	$ 614	$ (77)	$ 745

Chicken Segment Results	in millions				
	2007	2006	Change 2007 vs. 2006	2005	Change 2006 vs. 2005
Sales	$ 8,188	$ 7,928	$ 260	$ 8,295	$ (367)
Sales Volume Change			(4.7)%		3.0%
Average Sales Price Change			8.4%		(7.2)%
Operating Income	$ 280	$ 53	$ 227	$ 582	$ (529)
Operating Margin	3.4%	0.7%		7.0%	

2007 Operating income includes a $10 million gain on the sale of two poultry plants and related support facilities.

2006 Operating income includes $9 million of charges related to our Cost Management Initiative, other business consolidation efforts and plant closing costs.

2005 Operating income includes $12 million of charges related to plant closings and $8 million of hurricane-related losses.

2007 vs. 2006

Sales and Operating Income The increase in sales and operating income is due to the increase in average sales prices, partially offset by a decrease in sales volumes. The decrease in sales volumes is due to planned production cuts, the sale of two poultry plants and the closure of a poultry plant in fiscal 2006 due to a fire. The increase in average sales prices contributed to improved operating income, partially offset by an increase in net grain costs of $256 million. The increase of net grain costs includes $334 million of increased grain costs, partially offset by increased net gains of $78 million from our commodity risk management activities related to grain purchases. Additionally, operating income improved due to a decrease in selling, general and administrative expenses.

2006 vs. 2005

Sales and Operating Income - The decline in sales was primarily due to lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace. In addition to the lower average sales prices, operating results were affected negatively by higher energy costs and decreased margins at our operations in Mexico. Fiscal 2006 operating results include realized and unrealized net gains of $6 million from our commodity risk management activities related to grain purchases compared to realized and unrealized net losses of $27 million recorded in fiscal 2005.

Beef Segment Results	in millions				
	2007	2006	Change 2007 vs. 2006	2005	Change 2006 vs. 2005
Sales	$ 12,703	$ 11,825	$ 878	$ 11,618	$ 207
Sales Volume Change			1.5 %		2.6 %
Average Sales Price Change			5.8 %		(0.8)%
Operating Income (Loss)	$ 35	$ (296)	$ 331	$ (12)	$ (284)
Operating Margin	0.3 %	(2.5)%		(0.1)%	

2006 Operating loss includes $52 million of charges related to plant closings, our Cost Management Initiative and other business consolidation efforts.

2005 Operating loss includes $10 million of income received in connection with vitamin antitrust litigation.

Fiscal 2007 vs. 2006

Sales and Operating Income (Loss) The increase in sales and operating income was due to higher average sales prices, as well as higher sales volumes. The operating results improvement was due to operating cost efficiencies and yield improvements, partially offset by an increase in average live prices. Also, operating results improved significantly from a decrease in selling, general and administrative expenses. Fiscal 2007 operating results include realized and unrealized net losses of $2 million from our commodity risk management activities related to forward futures contracts for live cattle, excluding the related impact from the physical sale and purchase transactions, compared to realized and unrealized net losses of $40 million recorded in fiscal 2006. Additionally, operating results were affected positively by significant operating margin improvements at our Lakeside operation in Canada.

Fiscal 2006 vs. 2005

Sales and Operating Loss The increase in sales was due to higher sales volumes, partially offset by slightly lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace. In addition to lower average sales prices, operating results were impacted negatively by significant operating margin reductions at our Lakeside operation in Canada. Also, fiscal 2006 operating results include realized and unrealized net losses of $40 million from our commodity risk management activities related to forward futures contracts for live cattle, excluding the related impact from the physical sale and purchase transactions, compared to realized and unrealized net gains of $13 million recorded in fiscal 2005.

Pork Segment Results in millions

	2007	2006	Change 2007 vs. 2006	2005	Change 2006 vs. 2005
Sales	$ 3,309	$ 3,060	$ 249	$ 3,247	$ (187)
Sales Volume Change			5.1 %		0.5 %
Average Sales Price Change			2.9 %		(6.2)%
Operating Income	$ 135	$ 47	$ 88	$ 47	$ -
Operating Margin	4.1 %	1.5 %		1.4 %	

2005 Operating income includes $33 million of charges related to a legal settlement involving our live swine operations.

2007 vs. 2006

Sales and Operating Income The increase in sales and operating income was due to higher sales volumes and an increase in average sales prices, due to increased domestic demand and strong export markets. Additionally, operating income was impacted positively by improved operating cost efficiencies and yield improvements, partially offset by higher average live prices. Fiscal 2007 operating results include realized and unrealized net gains of $3 million from our commodity risk management activities related to forward futures contracts for live hogs, excluding the related impact from the physical sale and purchase transactions, compared to realized and unrealized net losses of $15 million recorded in fiscal 2006.

2006 vs. 2005

Sales and Operating Income - The decline in sales was primarily due to lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace. Lower average sales prices were offset partially by lower average live prices. Additionally, fiscal 2006 operating results include realized and unrealized net losses of $15 million from our commodity risk management activities related to forward futures contracts for live hogs, excluding the related impact from the physical sale and purchase transactions, compared to realized and unrealized net losses of $22 million recorded in fiscal 2005.

Prepared Foods Segment Results in millions

	2007	2006	Change 2007 vs. 2006	2005	Change 2006 vs. 2005
Sales	$ 2,660	$ 2,692	$ (32)	$ 2,801	$ (109)
Sales Volume Change			(3.9)%		0.3 %
Average Sales Price Change			2.9 %		(4.2)%
Operating Income	$ 81	$ 45	$ 36	$ 78	$ (33)
Operating Margin	3.0 %	1.7 %		2.8 %	

2007 Operating income includes $7 million of charges related to intangible asset impairments.

2006 Operating income includes $19 million of charges related to plant closings, other business consolidation efforts and our Cost Management Initiative.

2007 vs. 2006

Sales and Operating Income The decline in sales primarily was due to a decrease in sales volumes, which includes reduced sales volumes on lower margin products, partially offset by an increase in average sales prices. Operating income improved primarily due to an improvement in average sales prices, partially offset by an increase in plant costs and raw material costs.

2006 vs. 2005

Sales and Operating Income - The decline in sales and operating income primarily was due to lower average sales prices.

TYSON FOODS, INC.

LIQUIDITY AND CAPITAL RESOURCES

Our cash needs for operations growth and capital expenditures are expected to be met with cash flows provided by operating activities, as well as short-term borrowings.

Reclassification: In fiscal 2007, we reclassified $85 million and $27 million, respectively, for fiscal 2006 and fiscal 2005, in negative book cash balances from Changes in working capital reported as Operating Activities to Increase (decrease) in negative book cash balances reported as Financing Activities to conform with the current period presentation.

Cash Flows from Operating Activities	in millions		
	2007	2006	2005
Net income (loss)	$ 268	$ (196)	$ 372
Non-cash items in net income (loss):			
Depreciation and amortization	514	517	501
Deferred taxes	5	(130)	(93)
Cumulative effect of change in accounting principle, before tax	-	9	-
Other, net	(1)	48	33
Income before changes in working capital	786	248	813
Changes in working capital	(108)	124	213
Net cash provided by operating activities	$ 678	$ 372	$ 1,026

Income before changes in working capital represents net income (loss) adjusted for non-cash income and expenses. Additionally, this amount represents net cash provided by operating activities prior to changes in assets and liabilities associated with operations.

Over the past three years, cash provided by operating activities was approximately $2.1 billion, which enabled us to fund $1.4 billion in capital expenditures and pay down debt by $593 million.

Changes in working capital:

2007 Operating cash flows declined due to higher inventory and accounts receivable balances, partially offset by a higher accounts payable balance.
2006 Operating cash flow increased due to a lower accounts receivable balance, higher accounts payable and interest payable balances, partially offset by a lower income taxes payable/receivable balance.
2005 Operating cash flow increased due to higher accounts payable and income taxes payable/receivable balances, as well as a lower accounts receivable balance.

Cash Flows from Investing Activities	in millions		
	2007	2006	2005
Additions to property, plant and equipment	$ (285)	$ (531)	$ (571)
Proceeds from sales of property, plant and equipment	76	21	47
Proceeds from sale (purchase) of marketable securities, net	16	23	(39)
Proceeds from sale (purchase) of short-term investment	770	(750)	-
Other, net	2	13	2
Net cash provided by (used for) investing activities	$ 579	$ (1,224)	$ (561)

Expenditures for property, plant and equipment include the acquisition of new equipment, upgrading our facilities to maintain competitive standing and position us for future opportunities. In fiscal 2007, we focused on reducing our capital spending. In fiscal 2006 and 2005, we had significant capital investing, including our new Discovery Center, the Sherman, Texas, case-ready facility and information system technology improvements.

At September 29, 2007, construction projects in progress will require approximately $194 million to complete. Capital spending for fiscal 2008 is expected to be between $425 million and $475 million.

In June 2007, we, along with Syntroleum Corporation, announced the formation of Dynamic Fuels LLC, a 50/50 joint venture, which will produce renewable synthetic fuels targeting the renewable diesel, jet and military fuel markets. We anticipate total initial capital spending of approximately $75 million for the construction of the initial facility, which is 50% of the estimated cost to construct the first facility. Construction is expected to begin in fiscal 2008 and continue through fiscal 2009, with production targeted for 2010.

TYSON FOODS, INC.

Proceeds from sale of assets in fiscal 2007 include $40 million received related to the sale of two poultry plants and related support facilities.

Short-term investment purchased in fiscal 2006 with proceeds from $1.0 billion of senior unsecured notes maturing on April 1, 2016. The short-term investment was held in an interest bearing account with a trustee. In fiscal 2007, we used proceeds from sale of the short-term investment to repay our outstanding $750 million 7.25% Notes due October 1, 2006.

We continue to evaluate additional international and domestic growth opportunities. We are working to close potentially two integrated poultry joint ventures in China, as well as an integrated poultry deal in Brazil. We expect to close two of these transactions by the end of the second quarter of fiscal 2008, with the third to be completed in the third quarter of fiscal 2008.

Cash Flows from Financing Activities	in millions 2007	2006	2005
Net borrowings (payments) on revolving credit facilities	$ 53	$ 158	$ (384)
Payments on debt	(1,263)	(166)	(336)
Net proceeds from borrowings of debt	-	992	353
Purchases of treasury shares	(61)	(42)	(45)
Dividends	(56)	(55)	(55)
Stock options exercised	74	32	23
Increase (decrease) in negative book cash balances	9	(85)	(27)
Other, net	(8)	10	1
Net cash provided by (used for) financing activities	$ (1,252)	$ 844	$ (470)

Net borrowings (payments) on revolving credit facilities primarily include activity related to the accounts receivable securitization and commercial paper.

Payments on debt include -

In fiscal 2007, we used proceeds from sale of the short-term investment to repay our outstanding $750 million 7.25% Notes due October 1, 2006. In addition, we used cash from operations to reduce the amount outstanding under the Lakeside term loan by $320 million, repay the outstanding $125 million 7.45% Notes due June 1, 2007, and reduce other borrowings.

In fiscal 2006, we repaid the $87 million 6.125% Senior Notes due February 1, 2006, and reduced other borrowings.

In fiscal 2005, we repaid the $150 million 6.75% Notes due June 1, 2005, repaid the $138 million 6.625% Notes due October 17, 2005, and reduced other borrowings.

Net proceeds from borrowings of debt include -

In fiscal 2006, we issued $1.0 billion of senior unsecured notes maturing on April 1, 2016 (2016 Notes). The 2016 Notes carried an initial 6.60% interest rate, which now carry a 6.85% interest rate, with interest payments due semi-annually on April 1 and October 1. In fiscal 2007, proceeds were used to repay our outstanding $750 million 7.25% Notes due October 1, 2006. The remaining proceeds were used for general corporate purposes.

In fiscal 2005, Lakeside Farm Industries, Ltd. (Lakeside) borrowed $353 million in U.S. dollars under an unsecured three-year term loan agreement with the principal balance due at the end of the term. The agreement provides for interest rates ranging from LIBOR plus 0.4 percent to LIBOR plus one percent depending on our debt rating. Interest payments are made at least quarterly. Lakeside is one of our wholly-owned subsidiaries.

We have $137 million of debt due in fiscal 2008. We expect to use cash from operations or short-term borrowings to repay this debt.

TYSON FOODS, INC.

Liquidity	in millions				
	Expiration Date	Facility Amount	Outstanding Letters of Credit (no draw downs)	Amount Borrowed	Amount Available
Revolving credit facility	September 2010	$ 1,000	$ 252	$ -	$ 748
Receivables purchase agreement	Aug 2008, Aug 2010	750	-	213	537
Unused borrowing capacity					$ 1,285

The revolving credit facility supports our short-term funding needs and letters of credit. Letters of credit are issued primarily in support of workers compensation insurance programs and derivative activities.
The receivables purchase agreement is with three co-purchasers and allows us to sell up to $750 million of trade receivables, consisting of $375 million expiring in August 2008 and $375 million expiring in August 2010.
Our current ratio at September 29, 2007, was 1.70 to 1, as compared to 1.47 to 1 and 1.62 to 1, respectively, at September 30, 2006, and October 1, 2005.

Capitalization	in millions 2007	2006	2005
Senior notes	$ 2,475	$ 3,388	$ 2,529
Lakeside term loan	25	345	345
Other indebtedness	279	246	121
Total Debt	$ 2,779	$ 3,979	$ 2,995
Total Equity	$ 4,731	$ 4,440	$ 4,671
Debt to Capitalization Ratio	37.0 %	47.3 %	39.1 %

At September 30, 2006, we had $750 million in a short-term investment held on deposit with a trustee. Proceeds from sale of short-term investment were used to repay the $750 million 7.25% Notes due October 1, 2006. This repayment was made in fiscal 2007. When adjusted for the $750 million short-term investment held on deposit, total debt would have been $3.2 billion, with a debt to capitalization ratio of 42.1%.

Credit Ratings

On July 24, 2006, Moody s Investors Services, Inc. (Moody s) downgraded the credit rating applicable to the 2016 Notes from Baa3 to Ba1. This downgrade increased the interest rate on the 2016 Notes from 6.60% to 6.85%, effective on the first day of the interest period during which the rating change required an adjustment to the interest rate (i.e., the issuance of the 2016 Notes). This downgrade did not have a material impact to interest expense. Additionally, on July 31, 2006, Standard & Poor s (S&P) downgraded the credit rating applicable to the 2016 Notes from BBB to BBB-. This downgrade did not result in an increase in the interest rate on the 2016 Notes, nor did it result in an increase in interest expense or related fees for other debt.

On September 18, 2006, Tyson Fresh Meats (TFM), a wholly-owned subsidiary of the Company, guaranteed the 2016 Notes. This guarantee does not extend to the other unsecured senior notes of the Company. Moody s and S&P did not change the July 2006 credit ratings applicable to the 2016 Notes. However, Moody s issued a new credit rating of Ba2, and S&P issued a new credit rating of BB+ related to the other unsecured senior notes not guaranteed by TFM. These new ratings did not impact the interest rate applicable to the 2016 Notes and did not have a material impact on interest expense.

S&P currently rates the 2016 Notes BBB-, with a negative outlook. Moody s currently rates this debt Ba1, with a negative outlook. The pretax impact to earnings of a further downgrade would not be material.

TYSON FOODS, INC.

Debt Covenants

Our debt agreements contain various covenants, the most restrictive of which contain maximum allowed leverage ratios and a minimum required interest coverage ratio. We were in compliance with all covenants at September 29, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements material to our financial position or results of operations. The off-balance sheet arrangements we have are guarantees of debt of outside third parties, including a lease and grower loans, and residual value guarantees covering certain operating leases for various types of equipment. See Note 8, Commitments of the Notes to Consolidated Financial Statements for further discussions of these guarantees.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of September 29, 2007:

	in millions Payments Due by Period				
	2008	2009 2010	2011 - 2012	2013 and thereafter	Total
Debt and capital lease obligations:					
Principal payments (1)	$ 137	$ 382	$ 1,003	$ 1,257	$ 2,779
Interest payments (2)	200	453	221	412	1,286
Guarantees (3)	16	39	33	43	131
Operating lease obligations (4)	74	87	35	14	210
Purchase obligations (5)	636	26	6	4	672
Capital expenditures (6)	194	-	-	-	194
Dynamic Fuels joint venture funding	35	35	-	-	70
Other long-term liabilities (7)	8	6	5	32	51
Total contractual commitments	$ 1,300	$ 1,028	$ 1,303	$ 1,762	$ 5,393

(1) In the event of a default on payment or violation of debt covenants, acceleration of the principal payments could occur. At September 29, 2007, we were in compliance with all of our debt covenants.

(2) Interest payments include interest on all outstanding debt. Payments are estimated for variable rate and variable term debt based on effective rates at September 29, 2007, and expected payment dates.

(3) Amounts included are for the guarantees of debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets, as well as residual value guarantees covering certain operating leases for various types of equipment. The amounts included are the maximum potential amount of future payments.

(4) Amounts included in operating lease obligations are minimum lease payments under lease agreements.

(5) Amounts included in purchase obligations are agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligations amount includes items, such as future purchase commitments for grains and livestock contracts that provide terms that meet the above criteria. We have excluded future purchase commitments for contracts that do not meet these criteria. Purchase orders have not been included in the table, as a purchase order is an authorization to purchase and may not be considered an enforceable and legally binding contract. Contracts for goods or services that contain termination clauses without penalty have also been excluded.

(6) Amounts included in capital expenditures are estimated amounts to complete construction projects in progress as of September 29, 2007.

(7) Amounts included in other long-term liabilities are items that meet the definition of a purchase obligation and are recorded in the Consolidated Balance Sheets.

TYSON FOODS, INC.

RECENTLY ADOPTED ACCOUNTING STANDARDS AND REGULATIONS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires companies to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and to recognize changes in funded status in the year in which the changes occur through other comprehensive income. We adopted SFAS No. 158 at the end of fiscal 2007. This standard also requires companies to measure the funded status of a plan as of the date of its annual consolidated balance sheet, with limited exceptions. This portion of the standard has a delayed effective date, which we will adopt in fiscal 2009. See Note 12, Pensions and Other Postretirement Benefits in the Notes to Consolidated Financial Statements for the impact of the adoption of SFAS No. 158.

In September 2006, the Securities and Exchange Commission staff published Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements in Current Year Financial Statements (SAB 108). SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. We adopted SAB 108 at the end of fiscal 2007, and there was no impact on our consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS No. 123R). The pronouncement requires companies to measure and recognize compensation expense for all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares, in the financial statements based on the fair value at the date of the grant. In fiscal 2006, we adopted SFAS No. 123R using the modified prospective method. Under the modified prospective method, compensation cost is recognized for all share-based payments granted after the adoption of SFAS No. 123R and for all awards granted to employees prior to the adoption date of SFAS No. 123R and unvested on the adoption date. Accordingly, no restatements were made to prior periods. Prior to the adoption of SFAS No. 123R, we applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees in accounting for our employee stock compensation plans. Accordingly, no compensation expense was recognized for stock option issuances as stock options are issued with an exercise price equal to the closing price at the date of grant. Also, prior to the adoption of SFAS No. 123R, we issued restricted stock and recorded the fair value of such awards as deferred compensation amortized over the vesting period. The fair value of each option grant is established on the date of grant using the Black-Scholes option-pricing model for grants awarded prior to October 1, 2005, and a binomial lattice method for grants awarded subsequent to October 1, 2005. The change to the binomial lattice method was made to better reflect the exercise behavior of top management. We recognized compensation expense (net of tax) in fiscal 2007 and fiscal 2006, respectively, of $11 million and $9 million related to stock options and $14 million and $15 million related to restricted stock. As of September 29, 2007, we had $44 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 2.5 years and $44 million of total unrecognized compensation cost related to restricted stock awards that will be recognized over a weighted-average period of 2.2 years.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143), was issued in June 2001 and requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset that resulted from the acquisition, construction, development and/or the normal operation of a long-lived asset. The associated asset costs are capitalized as part of the carrying amount of the long-lived asset. FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, which refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. We adopted FIN 47 as of September 30, 2006. See Note 2, Change in Accounting Principle in the Notes to Consolidated Financial Statements for the impact of the adoption of FIN 47.

TYSON FOODS, INC.

RECENTLY ISSUED ACCOUNTING STANDARDS AND REGULATIONS

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006; therefore, we will adopt FIN 48 at the beginning of fiscal 2008. Currently we are evaluating the impact the adoption of this statement will have on our consolidated financial position and we expect the adoption of FIN 48 will result in a cumulative effect adjustment between $10 million and $25 million. The adjustment will decrease retained earnings and increase other long-term liabilities.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This standard also responds to investors requests for 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. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). This statement provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 157 and SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years; therefore, we expect to adopt SFAS No. 157 and SFAS No. 159 at the beginning of fiscal 2009. We are in process of evaluating the potential impacts of SFAS No. 157 and SFAS No. 159.

TYSON FOODS, INC.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates we consider critical.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Contingent liabilities		
We are subject to lawsuits, investigations and other claims related to wage and hour/labor, livestock procurement, securities, environmental, product, taxing authorities and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses.	Our contingent liabilities contain uncertainties because the eventual outcome will result from future events, and determination of current reserves requires estimates and judgments related to future changes in facts and circumstances, differing interpretations of the law and assessments of the amount of damages, and the effectiveness of strategies or other factors beyond our control.	We have not made any material changes in the accounting methodology used to establish our contingent liabilities during the past three fiscal years.
A determination of the amount of reserves and disclosures required, if any, for these contingencies are made after considerable analysis of each individual issue. We accrue for contingent liabilities when an assessment of the risk of loss is probable and can be reasonably estimated. We disclose contingent liabilities when the risk of loss is reasonably possible or probable.		We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our contingent liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.
Marketing and advertising costs		
We incur advertising, retailer incentive and consumer incentive costs to promote products through marketing programs. These programs include cooperative advertising, volume discounts, in-store display incentives, coupons and other programs.	Recognition of the costs related to these programs contains uncertainties due to judgment required in estimating the potential performance and redemption of each program.	We have not made any material changes in the accounting methodology used to establish our marketing accruals during the past three fiscal years.
Marketing and advertising costs are charged in the period incurred. We accrue costs based on the estimated performance, historical utilization and redemption of each program.	These estimates are based on many factors, including experience of similar promotional programs.	We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our marketing accruals. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.
Cash consideration given to customers is considered a reduction in the price of our products, thus recorded as a reduction to sales. The remainder of marketing and advertising costs is recorded as a selling, general and administrative expense.		A 10% change in our marketing accruals at September 29, 2007, would impact pretax earnings by approximately $9 million.

TYSON FOODS, INC.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Accrued self insurance		
We are self insured for certain losses related to health and welfare, workers compensation, auto liability and general liability claims.	Our self-insurance liability contains uncertainties due to assumptions required and judgment used.	We have not made any material changes in the accounting methodology used to establish our self-insurance liability during the past three fiscal years.
We use an independent third-party actuary to assist in the determination of our self-insurance liability. We and the actuary consider a number of factors when estimating our self-insurance liability, including claims experience, demographic factors, severity factors and other actuarial assumptions.	Costs to settle our obligations, including legal and healthcare costs, could increase or decrease causing estimates of our self-insurance liability to change.	We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our self-insurance liability. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.
We periodically review our estimates and assumptions with our third-party actuary to assist us in determining the adequacy of our self-insurance liability. Our policy is to maintain an accrual within the central to high point of the actuarial range.	Incident rates, including frequency and severity, could increase or decrease causing estimates in our self-insurance liability to change.	A 10% increase in the actuarial range at September 29, 2007, would not impact the amount we recorded for our self-insurance liability. A 10% decrease in the actuarial range at September 29, 2007, would result in a gain in the amount we recorded for our self-insurance liability of approximately $23 million.
Impairment of long-lived assets		
Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Examples include a significant adverse change in the extent or manner in which we use a long-lived asset or a change in its physical condition.	Our impairment analysis contains uncertainties due to judgment in assumptions and estimates surrounding undiscounted future cash flows of the long-lived asset, including forecasting useful lives of assets and selecting the discount rate that reflects the risk inherent in future cash flows.	We have not made any material changes in the accounting methodology used to evaluate the impairment of long-lived assets during the last three years.
When evaluating long-lived assets for impairment, we compare the carrying value of the asset to the asset s estimated undiscounted future cash flows. An impairment is recorded if the estimated future cash flows are less than the carrying value of the asset. The impairment is the excess of the carrying value over the fair value of the long-lived asset.		We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate impairments of long-lived assets. However, if actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to impairment losses that could be material.
We recorded impairment charges related to long-lived assets of $6 million, $67 million and $33 million, respectively, in fiscal years 2007, 2005 and 2005.		

TYSON FOODS, INC.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Impairment of goodwill and other intangible assets		
Goodwill impairment is determined using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit). For our other intangible assets, if the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We have elected to make the first day of the fourth quarter the annual impairment assessment date for goodwill and other intangible assets. However, we could be required to evaluate the recoverability of goodwill and other intangible assets prior to the required annual assessment if we experience	We estimate the fair value of our reporting units, generally our operating segments, using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various judgmental assumptions about sales, operating margins, growth rates and discount rates. Assumptions about sales, operating margins and growth rates are based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. While estimating the fair value of our Beef segment, we assumed operating margins in future years in excess of the margins realized since export markets have been restricted due to BSE issues. The fair value estimate for this segment assumes future access to export markets similar to periods prior to BSE issues and it includes operating margin assumptions based on long-term expectations and margins historically realized in the beef industry. We estimate the fair value of our Beef segment would be in excess of its carrying amount, including goodwill, by sustaining long-term operating margins of approximately 2.5%. Other intangible asset fair values have been calculated for trademarks using a royalty rate method and using the present value of future cash flows for patents and in-process technology. Assumptions about royalty rates are based on the rates at which similar brands and trademarks are licensed in the marketplace. Our impairment analysis contains uncertainties due to uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions.	We have not made any material changes in the accounting methodology used to evaluate impairment of goodwill and other intangible assets during the last three years. At September 29, 2007, we had $2.5 billion of goodwill and $126 million of other intangible assets. Our goodwill is included in the following segments: $0.9 billion - Chicken $1.2 billion - Beef $0.3 billion - Pork $0.1 billion - Prepared Foods As a result of the first step of the 2007 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore, the second step was not necessary. However, a 13% decline in fair value of our Beef segment or a 7% decline in fair value of our Chicken segment would have caused the carrying values for these reporting units to be in excess of fair values which would require the second step to be performed. The second step could have resulted in an impairment loss for goodwill. While we believe we have made reasonable estimates and assumptions to calculate the fair value of the reporting units and fair value of other intangible assets, it is possible a material change could occur. If our actual results are not consistent with our estimates and assumptions used to calculate the fair value of the reporting units, we may be required to perform the second step which could result in a material impairment of our goodwill.

disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of the business or a decline in market capitalization.

Our fiscal 2007 other intangible asset impairment analysis did not result in a material impairment charge. A hypothetical 10% decrease in the fair value of intangible assets would not result in a material impairment.

TYSON FOODS, INC.

Description	**Judgments and Uncertainties**	**Effect if Actual Results Differ From Assumptions**
Income taxes We estimate total income tax expense based on statutory tax rates and tax planning opportunities available to us in various jurisdictions in which we earn income. Federal income taxes include an estimate for taxes on earnings of foreign subsidiaries expected to be remitted to the United States and be taxable, but not for earnings considered indefinitely invested in the foreign subsidiary. Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are recorded when it is likely a tax benefit will not be realized for a deferred tax asset. We record tax liabilities for anticipated tax issues based on our estimate of whether, and the extent to which, additional taxes will be due.	Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. Changes in projected future earnings could affect the recorded valuation allowances in the future. Our calculations related to income taxes contain uncertainties due to judgment used to calculate tax liabilities in the application of complex tax regulations across the tax jurisdictions where we operate.	We do not believe there is a reasonable likelihood there will be a material change in the tax related balances or valuation allowances. However, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our recorded reserves, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of our cash and result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the period of resolution.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISK

Market risks relating to our operations result primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, we enter into various derivative transactions as described below. If a derivative instrument is accounted for as a hedge, as defined by SFAS No. 133, as amended, 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 recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument s change in fair value, as defined by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended, is recognized immediately. Additionally, we hold certain positions, primarily in grain and livestock futures that either do not meet the criteria for hedge accounting or are not designated as hedges. These positions are marked to market, and the unrealized gains and losses are reported in earnings at each reporting date. The changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. The changes in market value of derivatives used in our risk management activities surrounding forward sales contracts are recorded in sales.

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

Commodities Risk: We purchase certain commodities, such as grains, livestock and natural gas in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges under SFAS No. 133 could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of September 29, 2007, and September 30, 2006, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge positions. The following sensitivity analysis reflects the impact on earnings for changes in the fair value of open positions.

Effect of 10% change in fair value		in millions
	2007	2006
Livestock:		
Cattle	$ 33	$ 43
Hogs	64	37
Grain	9	11
Natural Gas	2	1

Interest Rate Risk: At September 29, 2007, we had fixed-rate debt of $2.5 billion with a weighted average interest rate of 7.5%. We have exposure to changes in interest rates on this fixed-rate debt. Market risk for fixed-rate debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately $58 million at September 29, 2007, and $87 million at September 30, 2006. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

At September 29, 2007, we had variable rate debt of $275 million with a weighted average interest rate of 5.9%. A hypothetical 10% increase in interest rates effective at September 29, 2007, and September 30, 2006, would have a minimal effect on interest expense.

Foreign Currency Risk: We have non-cash foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates as a result of certain receivable and payable balances. The primary currency exchanges we have exposure to are the Canadian dollar, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. We periodically enter into foreign exchange forward contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at September 29, 2007, and September 30, 2006, would have a minimal effect on pretax income.

Concentrations of Credit Risk: Our financial instruments exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. Our cash equivalents are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to our large number of customers and their dispersion across geographic areas. We perform periodic credit evaluations of our customers financial condition and generally do not require collateral. At September 29, 2007, and September 30, 2006, approximately 12.1% and 13.0%, respectively, of our net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

TYSON FOODS, INC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three years ended September 29, 2007 in millions, except per share data		
	2007	2006	2005
Sales	$ 26,900	$ 25,559	$ 26,014
Cost of Sales	25,467	24,631	24,294
	1,433	928	1,720
Operating Expenses:			
Selling, general and administrative	817	935	928
Other charges	2	70	47
Operating Income (Loss)	614	(77)	745
Other (Income) Expense:			
Interest income	(8)	(30)	(10)
Interest expense	232	268	237
Other, net	(20)	(22)	(10)
	204	216	217
Income (Loss) before Income Taxes	410	(293)	528
Income Tax Expense (Benefit)	142	(102)	156
Income (Loss) before Cumulative Effect of Change in Accounting Principle	268	(191)	372
Cumulative Effect of Change in Accounting Principle, Net of Tax	-	(5)	-
Net Income (Loss)	$ 268	$ (196)	$ 372
Weighted Average Shares Outstanding:			
Class A Basic	273	249	243
Class B Basic	75	96	102
Diluted	355	345	357
Earnings Per Share:			
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle			
Class A Basic	$ 0.79	$ (0.56)	$ 1.11
Class B Basic	$ 0.70	$ (0.52)	$ 1.00
Diluted	$ 0.75	$ (0.56)	$ 1.04
Cumulative Effect of Change in Accounting Principle			
Class A Basic	$ -	$ (0.02)	$ -
Class B Basic	$ -	$ (0.01)	$ -
Diluted	$ -	$ (0.02)	$ -
Net Earnings (Loss) per Share			
Class A Basic	$ 0.79	$ (0.58)	$ 1.11
Class B Basic	$ 0.70	$ (0.53)	$ 1.00
Diluted	$ 0.75	$ (0.58)	$ 1.04

See accompanying notes.

TYSON FOODS, INC.

CONSOLIDATED BALANCE SHEETS

	September 29, 2007, and September 30, 2006 in millions, except share and per share data	
	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 42	$ 28
Short-term investment	-	770
Accounts receivable, net	1,246	1,183
Inventories	2,238	2,057
Other current assets	70	149
Total Current Assets	3,596	4,187
Net Property, Plant and Equipment	3,693	3,945
Goodwill	2,485	2,512
Intangible Assets	126	136
Other Assets	327	341
Total Assets	$ 10,227	$ 11,121
Liabilities and Shareholders Equity		
Current Liabilities:		
Current debt	$ 137	$ 992
Trade accounts payable	1,050	942
Other current liabilities	928	912
Total Current Liabilities	2,115	2,846
Long-Term Debt	2,642	2,987
Deferred Income Taxes	367	495
Other Liabilities	372	353
Shareholders Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares:		
issued 300 million shares in 2007 and 284 million shares in 2006	30	28
Class B-authorized 900 million shares:		
issued 70 million shares in 2007 and 86 million shares in 2006	7	9
Capital in excess of par value	1,877	1,835
Retained earnings	2,993	2,781
Accumulated other comprehensive income	50	17
	4,957	4,670
Less treasury stock, at cost-		
14 million shares in 2007 and 15 million shares in 2006	226	230
Total Shareholders Equity	4,731	4,440
Total Liabilities and Shareholders Equity	$ 10,227	$ 11,121

See accompanying notes.

TYSON FOODS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three years ended September 29, 2007
in millions

	September 29, 2007		September 30, 2006		October 1, 2005	
	Shares	Amount	Shares	Amount	Shares	Amount
Class A Common Stock:						
Balance at beginning of year	284	$28	268	$27	268	$27
Conversion from Class B shares	16	2	16	1	-	-
Balance at end of year	300	30	284	28	268	27
Class B Common Stock:						
Balance at beginning of year	86	9	102	10	102	10
Conversion to Class A shares	(16)	(2)	(16)	(1)	-	-
Balance at end of year	70	7	86	9	102	10
Capital in Excess of Par Value:						
Balance at beginning of year		1,835		1,867		1,849
Stock options exercised		9		(2)		14
Restricted shares issued		(26)		(16)		-
Restricted shares canceled		27		3		1
Cumulative effect of adoption of SFAS No. 123R		-		(55)		-
Restricted share amortization		24		26		-
Reclassification and other		8		12		3
Balance at end of year		1,877		1,835		1,867
Retained Earnings:						
Balance at beginning of year		2,781		3,032		2,728
Net income (loss)		268		(196)		372
Dividends paid		(56)		(55)		(55)
Dividends accrued		-		-		(13)
Balance at end of year		2,993		2,781		3,032
Accumulated Other Comprehensive Income (Loss), Net of Tax:						
Balance at beginning of year		17		28		(12)
Net hedging (gain) loss recognized in cost of sales		(20)		3		21
Net hedging unrealized						