TYSON FOODS INC
Form 10-Q
May 10, 2010

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

FORM 10-Q

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

For the quarterly period ended April 3, 2010

OR

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

For the transition period from _________to________

001-14704
(Commission File Number)

TYSON FOODS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

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

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	306,947,285
Class B Common Stock, $0.10 Par Value (Class B stock)	70,021,155

TYSON FOODS, INC.
INDEX

PART I. FINANCIAL INFORMATION

		PAGE
Item 1.	Financial Statements	
	Consolidated Condensed Statements of Income for the Three and Six Months Ended April 3, 2010, and March 28, 2009	3
	Consolidated Condensed Balance Sheets April 3, 2010, and October 3, 2009	4
	Consolidated Condensed Statements of Cash Flows for the Six Months Ended April 3, 2010, and March 28, 2009	5
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	45
Item 4.	Controls and Procedures	46

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	48
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 3.	Defaults Upon Senior Securities	48
Item 4.	Removed and Reserved	48
Item 5.	Other Information	48
Item 6.	Exhibits	50
SIGNATURES		50

2

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Sales	$ 6,916	$ 6,307	$ 13,551	$ 12,828
Cost of Sales	6,352	6,054	12,458	12,557
	564	253	1,093	271
Selling, General and Administrative	220	209	435	425
Other Charges	-	15	-	15
Operating Income (Loss)	344	29	658	(169)
Other (Income) Expense:				
Interest income	(4)	(5)	(7)	(9)
Interest expense	100	78	180	145
Other, net	(1)	3	-	21
	95	76	173	157
Income (Loss) from Continuing Operations before Income Taxes	249	(47)	485	(326)
Income Tax Expense (Benefit)	93	58	170	(111)
Income (Loss) from Continuing Operations	156	(105)	315	(215)
Loss from Discontinued Operation, net of tax	-	(14)	-	(8)
Net Income (Loss)	156	(119)	315	(223)
Less: Net Loss Attributable to Noncontrolling Interest	(3)	-	(4)	(2)
Net Income (Loss) Attributable to Tyson	$ 159	$ (119)	$ 319	$ (221)
Weighted Average Shares Outstanding:				
Class A Basic	303	303	303	303
Class B Basic	70	70	70	70
Diluted	378	373	377	373
Earnings (Loss) Per Share from Continuing Operations Attributable to Tyson:				
Class A Basic	$ 0.43	$ (0.29)	$ 0.87	$ (0.58)
Class B Basic	$ 0.39	$ (0.26)	$ 0.78	$ (0.53)

Diluted	$	0.42	$	(0.28	)	$	0.84	$	(0.57	)
Loss Per Share from Discontinued Operation Attributable to Tyson:										
Class A Basic	$	-	$	(0.04	)	$	-	$	(0.02	)
Class B Basic	$	-	$	(0.04	)	$	-	$	(0.02	)
Diluted	$	-	$	(0.04	)	$	-	$	(0.02	)
Net Income (Loss) Per Share Attributable to Tyson:										
Class A Basic	$	0.43	$	(0.33	)	$	0.87	$	(0.60	)
Class B Basic	$	0.39	$	(0.30	)	$	0.78	$	(0.55	)
Diluted	$	0.42	$	(0.32	)	$	0.84	$	(0.59	)
Cash Dividends Per Share:										
Class A	$	0.040	$	0.040		$	0.080	$	0.080	
Class B	$	0.036	$	0.036		$	0.072	$	0.072	

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	April 3, 2010	October 3, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 812	$ 1,004
Restricted cash	-	140
Accounts receivable, net	1,125	1,100
Inventories, net	2,112	2,009
Other current assets	180	122
Total Current Assets	4,229	4,375
Restricted Cash	-	43
Net Property, Plant and Equipment	3,628	3,576
Goodwill	1,918	1,917
Intangible Assets	176	187
Other Assets	460	497
Total Assets	$ 10,411	$ 10,595
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	$ 90	$ 219
Trade accounts payable	963	1,013
Other current liabilities	864	761
Total Current Liabilities	1,917	1,993
Long-Term Debt	2,889	3,258
Deferred Income Taxes	309	309
Other Liabilities	508	539
Redeemable Noncontrolling Interest	65	65
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 322 million shares	32	32
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	2,227	2,236
Retained earnings	2,685	2,399
Accumulated other comprehensive loss	(27)	(34)
	4,924	4,640
Less treasury stock, at cost – 15 million shares at April 3, 2010, and 16 million shares at October 3, 2009	231	242
Total Tyson Shareholders' Equity	4,693	4,398
Noncontrolling Interest	30	33
Total Shareholders' Equity	4,723	4,431
Total Liabilities and Shareholders' Equity	$ 10,411	$ 10,595

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Six Months Ended	
	April 3, 2010	March 28, 2009
Cash Flows From Operating Activities:		
Net income (loss)	$ 315	$ (223)
Depreciation and amortization	247	253
Deferred income taxes	1	(78)
Other, net	47	88
Net changes in working capital	(111)	367
Cash Provided by Operating Activities	499	407
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(264)	(160)
Change in restricted cash to be used for investing activities	43	(76)
Proceeds from sale of marketable securities	22	25
Purchases of marketable securities	(26)	(13)
Proceeds from sale of discontinued operation	-	43
Acquisitions, net of cash acquired	-	(76)
Other, net	(2)	20
Cash Used for Investing Activities	(227)	(237)
Cash Flows From Financing Activities:		
Net payments on revolving credit facilities	-	(2)
Payments on debt	(555)	(51)
Proceeds from borrowings of debt	15	851
Debt issuance costs	-	(58)
Change in restricted cash to be used for financing activities	140	(234)
Purchases of treasury shares	(31)	(4)
Dividends	(30)	(30)
Change in negative book cash balances	(13)	(90)
Stock options exercised and other, net	15	4
Cash Provided by (Used for) Financing Activities	(459)	386
Effect of Exchange Rate Change on Cash	(5)	11
Increase (Decrease) in Cash and Cash Equivalents	(192)	567
Cash and Cash Equivalents at Beginning of Year	1,004	250
Cash and Cash Equivalents at End of Period	$ 812	$ 817

See accompanying Notes to Consolidated Condensed Financial Statements.

5

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

NOTE 1: ACCOUNTING POLICIES

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

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of April 3, 2010, the results of operations for the three and six months ended April 3, 2010, and March 28, 2009, and cash flows for the six months ended April 3, 2010, and March 28, 2009. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

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

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

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

In December 2007, the FASB issued guidance establishing principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures goodwill acquired in a business

combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we adopted this guidance at the beginning of fiscal 2010. The initial adoption did not have a significant impact on our consolidated condensed financial statements.

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

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

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

	Previously Reported	Adjustments: Convertible Debt	Adjustments: Noncontrolling Interest	As Adjusted
October 3, 2009 Balance Sheet:				
Long-Term Debt	$ 3,333	$ (75)	$ -	$ 3,258
Deferred Income Taxes	280	29	-	309
Minority Interest	98	-	(98)	-
Redeemable Noncontrolling Interest	-	-	65	65
Capital in Excess of Par Value	2,180	56	-	2,236
Retained Earnings	2,409	(10)	-	2,399
Total Tyson Shareholders' Equity	4,352	46	-	4,398
Noncontrolling Interest	-	-	33	33
Total Shareholders' Equity	4,352	46	33	4,431
Three Months Ended March 28, 2009 – Income Statement:				
Interest Expense	$ 74	$ 4	$ -	$ 78
Income (Loss) from Continuing Operations before Income Taxes	(43)	(4)	-	(47)
Income Tax Expense (Benefit)	47	11	-	58
Income (Loss) from Continuing Operations	(90)	(15)	-	(105)
Minority Interest	-	-	-	-
Net Income (Loss)	(104)	(15)	-	(119)
Less: Net Loss Attributable to Noncontrolling Interest	-	-	-	-
Net Income (Loss) Attributable to Tyson	-	-	-	(119)
Earnings (Loss) Per Share from Continuing Operations Attributable to Tyson:				
Class A Basic	$ (0.25)	$ (0.04)	$ -	$ (0.29)
Class B Basic	$ (0.22)	$ (0.04)	$ -	$ (0.26)
Diluted	$ (0.24)	$ (0.04)	$ -	$ (0.28)
Net Income (Loss) Per Share Attributable to Tyson:				

Class A Basic	$ (0.29)	$ (0.04)	$ -	$ (0.33)
Class B Basic	$ (0.26)	$ (0.04)	$ -	$ (0.30)
Diluted	$ (0.28)	$ (0.04)	$ -	$ (0.32)

	Previously Reported	Adjustments: Convertible Debt	Adjustments: Noncontrolling Interest	As Adjusted
Six Months Ended March 28, 2009 – Income Statement:				
Interest Expense	$ 137	$ 8	$ -	$ 145
Income (Loss) from Continuing Operations before Income Taxes	(318)	(8)	-	(326)
Income Tax Expense (Benefit)	(108)	(3)	-	(111)
Income (Loss) from Continuing Operations	(210)	(5)	-	(215)
Minority Interest	(2)	-	2	-
Net Income (Loss)	(216)	(5)	(2)	(223)
Less: Net Loss Attributable to Noncontrolling Interest	-	-	(2)	(2)
Net Income (Loss) Attributable to Tyson	-	-	-	(221)
Earnings (Loss) Per Share from Continuing Operations Attributable to Tyson:				
Class A Basic	$ (0.57)	$ (0.01)	$ -	$ (0.58)
Class B Basic	$ (0.51)	$ (0.02)	$ -	$ (0.53)
Diluted	$ (0.56)	$ (0.01)	$ -	$ (0.57)
Net Income (Loss) Per Share Attributable to Tyson:				
Class A Basic	$ (0.59)	$ (0.01)	$ -	$ (0.60)
Class B Basic	$ (0.53)	$ (0.02)	$ -	$ (0.55)
Diluted	$ (0.58)	$ (0.01)	$ -	$ (0.59)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE 2: ACQUISITIONS

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

NOTE 3: DISCONTINUED OPERATION

In June 2008, we executed a letter of intent with XL Foods Inc. (XL Foods) to sell the beef processing, cattle feed yard and fertilizer assets of three of our Alberta, Canada subsidiaries (collectively, Lakeside), which were part of our Beef segment. On March 13, 2009, we completed the sale and sold these assets and related inventories for total consideration of $145 million, based on exchange rates then in effect. This included (a) cash received at closing of $43 million, (b) $78 million of collateralized notes receivable from either XL Foods or an affiliated entity to be collected throughout the two years following closing, and (c) $24 million of XL Foods Preferred Stock to be redeemed over five years.

We recorded a pretax loss on sale of Lakeside of $10 million in the three and six months ended March 28, 2009, which included an allocation of beef reporting unit goodwill of $59 million and cumulative currency translation adjustment gains of $37 million.

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

	Three Months Ended		Six Months Ended	
	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Sales	$ -	$ 210	$ -	$ 461
Pretax income from discontinued operation	$ -	$ 1	$ -	$ 11
Loss on sale of discontinued operation	-	(10)	-	(10)
Income tax expense	-	5	-	9
Loss from discontinued operation	$ -	$ (14)	$ -	(8)

NOTE 4: DISPOSITIONS AND OTHER CHARGES

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

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

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

Our risk management programs are periodically reviewed by our Board of Directors’ Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk

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

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

the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) (OCI) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized in earnings immediately. We designate certain forward contracts as follows:

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

Cash flow hedges
Derivative instruments, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. We do not purchase forward commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 12 months. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three and six months ended April 3, 2010, and March 28, 2009.

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

	Metric	April 3, 2010	October 3, 2009
Commodity:			
Corn	Bushels	10 million	4 million
Soy meal	Tons	77,900	16,900

The net amount of pretax losses in accumulated OCI as of April 3, 2010, expected to be reclassified into earnings within the next 12 months, was $7 million. During the three and six months ended April 3, 2010, and March 28, 2009, we did not reclassify any pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges due to the probability the original forecasted transaction would not occur by the end of the originally specified time period or within the additional period of time allowed by generally accepted accounting principles.

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

	Gain/(Loss) Recognized in OCI On Derivatives		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings	
	Three Months Ended			Three Months Ended	
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009

Cash Flow Hedge – Derivatives designated as hedging instruments:										
Commodity contracts	$	(7	)	$	(4	)	Cost of Sales	$	1	$	(11	)
Foreign exchange contracts		-			(1	)	Other Income/Expense		-		-	
Total	$	(7	)	$	(5	)		$	1	$	(11	)

	Gain/(Loss) Recognized in OCI On Derivatives						Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings					
	Six Months Ended							Six Months Ended					
	April 3, 2010			March 28, 2009				April 3, 2010			March 28, 2009		
Cash Flow Hedge – Derivatives designated as hedging instruments:													
Commodity contracts	$	(5	)	$	(61	)	Cost of Sales	$	(1	)	$	(44	)
Foreign exchange contracts		-			9		Other Income/Expense		-			7	
Total	$	(5	)	$	(52	)		$	(1	)	$	(37	)

Fair value hedges

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

	Metric	April 3, 2010	October 3, 2009
Commodity:			
Live Cattle	Pounds	458 million	133 million
Lean Hogs	Pounds	369 million	171 million

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

in millions

	Consolidated Condensed Statements of Income	Three Months Ended		Six Months Ended	
	Classification	April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Gain/(Loss) on forwards	Cost of Sales	$ (17)	$ 47	$ (16)	$ 115
Gain/(Loss) on purchase contract	Cost of Sales	17	(47)	16	(115)

Ineffectiveness related to our fair value hedges was not significant for the three and six months ended April 3, 2010, and March 28, 2009.

Foreign net investment hedges

We utilize forward foreign exchange contracts to protect the value of our net investments in certain foreign subsidiaries. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in OCI as part of the cumulative translation adjustment to the extent it is effective, with the related amounts due to or from counterparties included in other liabilities or other assets. We utilize the forward-rate method of assessing hedge effectiveness. Any ineffective portions of net investment hedges are recognized in the Consolidated Condensed Statements of Income during the period of change. Ineffectiveness related to our foreign net investment hedges was not significant for the three and six months ended April 3, 2010, and March 28, 2009. At April 3, 2010, we had approximately $49 million aggregate outstanding notionals related to our forward foreign currency contracts accounted for as foreign net investment hedges.

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

Gain/(Loss)	Consolidated Condensed	Gain/(Loss)

	Recognized in OCI On Derivatives		Statements of Income Classification	Reclassified from OCI to Earnings	
	Three Months Ended			Three Months Ended	
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009
Net Investment Hedge – Derivatives designated as hedging instruments:					
Foreign exchange contracts	$ (1)	$ (5)	Other Income/Expense	$ -	$ -

	Gain/(Loss) Recognized in OCI On Derivatives		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings	
	Six Months Ended			Six Months Ended	
	April 3, 2010	March 28, 2009		April 3, 2010	March 28, 2009
Net Investment Hedge – Derivatives designated as hedging instruments:					
Foreign exchange contracts	$ (1)	$ (1)	Other Income/Expense	$ -	$ -

Ineffectiveness related to our foreign net investment hedges was not significant for the three and six months ended April 3, 2010, and March 28, 2009.

Undesignated positions

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

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

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

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

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

	Metric	April 3, 2010	October 3, 2009
Commodity:			
Corn	Bushels	31 million	11 million
Soy meal	Tons	186,400	73,000
Live Cattle	Pounds	17 million	82 million
Lean Hogs	Pounds	142 million	11 million
Natural Gas	British thermal units	100 billion	850 billion
Foreign Currency	United States dollars	$95 million	$124 million
Interest Rate	Average monthly notional debt	$58 million	$64 million

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

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

	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Recognized in Earnings Three Months Ended		Gain/(Loss) Recognized in Earnings Six Months Ended	
		April 3, 2010	March 28, 2009	April 3, 2010	March 28, 2009
Derivatives not designated as hedging instruments:					
Commodity contracts	Sales	$ 14	$ (7)	$ 22	$ (22)
Commodity contracts	Cost of Sales	(24)	(27)	(31)	(174)
Foreign exchange contracts	Other Income/Expense	-	6	(2)	9
Interest rate contracts	Interest Expense	-	-	-	3
Total		$ (10)	$ (28)	$ (11)	$ (184)

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

	Balance Sheet Classification	Fair Value April 3, 2010	Fair Value October 3, 2009
Derivative Assets:			
Derivatives designated as hedging instruments:			
Commodity contracts	Other current assets	$ -	$ 12
Derivatives not designated as hedging instruments:			
Commodity contracts	Other current assets	10	9
Foreign exchange contracts	Other current assets	3	-
Total derivative assets – not designated		13	9
Total derivative assets		$ 13	$ 21
Derivative Liabilities:			
Derivatives designated as hedging instruments:			
Commodity contracts	Other current liabilities	$ 42	$ 2
Foreign exchange contracts	Other current liabilities	1	-
Total derivative liabilities – designated		43	2
Derivatives not designated as hedging instruments:			
Commodity contracts	Other current liabilities	31	13
Foreign exchange contracts	Other current liabilities	2	1
Interest rate contracts	Other current liabilities	3	4

Total derivative liabilities – not designated		36		18
Total derivative liabilities	$	79	$	20

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

NOTE 6: INVENTORIES

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

	April 3, 2010	October 3, 2009
Processed products:		
Weighted-average method – chicken and prepared foods	$ 620	$ 629
First-in, first-out method – beef and pork	416	414
Livestock – first-in, first-out method	748	631
Supplies and other – weighted-average method	328	335
Total inventories, net	$ 2,112	$ 2,009

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

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

	April 3, 2010	October 3, 2009
Land	$ 96	$ 96
Buildings and leasehold improvements	2,586	2,570
Machinery and equipment	4,658	4,640
Land improvements and other	228	227
Buildings and equipment under construction	452	297
	8,020	7,830
Less accumulated depreciation	4,392	4,254
Net property, plant and equipment	$ 3,628	$ 3,576

NOTE 8: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	April 3, 2010	October 3, 2009
Accrued salaries, wages and benefits	$ 314	$ 187
Self-insurance reserves	235	230
Other	315	344
Total other current liabilities	$ 864	$ 761

NOTE 9: COMMITMENTS

We guarantee obligations of certain outside third parties, which consists of a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to eight years, and the maximum potential amount of future payments as of April 3, 2010, was $70 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The terms of the lease maturities cover periods up to six years. The maximum potential amount of the residual value guarantees is $54 million, of which $23 million would be recoverable through various recourse provisions and an additional undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of material payments under these guarantees is not

considered probable. At April 3, 2010, and October 3, 2009, no material liabilities for guarantees were recorded.

We have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier’s net tangible assets. The potential maximum obligation as of April 3, 2010, was approximately $250 million. The total receivables under these programs were $92 million and $72 million at April 3, 2010, and October 3, 2009, respectively, and are

included, net of allowance for uncollectible amounts, in Other Assets in our Consolidated Condensed Balance Sheets. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers' assets. After analyzing residual credit risks and general market conditions, we have recorded an allowance for these programs' estimated uncollectible receivables of $28 million and $20 million at April 3, 2010, and October 3, 2009, respectively.

The minority partner in our Shandong Tyson Xinchang Foods joint ventures in China has the right to exercise put options to require us to purchase its entire 40% equity interest at a price equal to the minority partner's contributed capital plus (minus) its pro-rata share of the joint venture's accumulated and undistributed net earnings (losses). The put options are exercisable for a five-year term commencing April 2011. At April 3, 2010, the put options, if they had been exercisable, would have resulted in a purchase price of approximately $71 million for the minority partner's entire equity interest. We do not believe the exercise of the put options would materially impact our results of operations or financial condition.

NOTE 10: LONG-TERM DEBT

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

		April 3, 2010		October 3, 2009	
Revolving credit facility – expires March 2012	$	-	$	-	
Senior notes:					
7.95% Notes due February 2010 (2010 Notes)		-		140	
8.25% Notes due October 2011 (2011 Notes)		552		839	
3.25% Convertible senior notes due October 2013 (2013 Notes)		458		458	
10.50% Senior notes due March 2014 (2014 Notes)		810		810	
7.85% Senior notes due April 2016 (2016 Notes)		866		923	
7.00% Notes due May 2018		140		174	
7.125% Senior notes due February 2026		9		9	
7.00% Notes due January 2028		27		27	
Discount on senior notes		(119	)	(132	)
GO Zone tax-exempt bonds due October 2033 (0.25% at 4/3/2010)		100		100	
Other		136		129	
Total debt		2,979		3,477	
Less current debt		90		219	
Total long-term debt	$	2,889	$	3,258	

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

Availability under this facility, up to $1.0 billion, is based on a percentage of certain eligible receivables and eligible inventory and is reduced by certain reserves. After reducing the amount eligible by outstanding letters of credit issued under this facility, the amount available for borrowing under this facility at April 3, 2010, was $772 million. At April 3, 2010, we had outstanding letters of credit issued under this facility totaling approximately $228 million, none of

which were drawn upon. Our letters of credit are issued primarily in support of workers' compensation insurance programs, derivative activities and Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds. We had an additional $48 million of bilateral letters of credit not issued under this facility, none of which were drawn upon.

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

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

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

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

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

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

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

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

We sold warrants in private transactions for total proceeds of $44 million. The warrants permit the purchasers to acquire up to approximately 27 million shares of our Class A stock at an initial exercise price of $22.31 per share,

subject to adjustment. The warrants are exercisable on various dates from January 2014 through March 2014.

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

GO Zone Tax-Exempt Bonds

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

Debt Covenants

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

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

Condensed Consolidating Financial Statements

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

Condensed Consolidating Statement of Income for the three months ended April 3, 2010 in millions