

TYSON FOODS INC  
Form 10-Q  
May 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended April 2, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-14704

(Commission File Number)

**TYSON FOODS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)

71-0225165  
(I.R.S. Employer

Identification No.)

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

**72762-6999**  
(Zip Code)

**(479) 290-4000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 2, 2011.

| Class                                                  | Outstanding Shares |
|--------------------------------------------------------|--------------------|
| Class A Common Stock, \$0.10 Par Value (Class A stock) | 309,491,077        |
| Class B Common Stock, \$0.10 Par Value (Class B stock) | 70,021,155         |

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****TYSON FOODS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME****(In millions, except per share data)****(Unaudited)**

|                                                        | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|--------------------------------------------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                                        | <b>April 2, 2011</b>      | <b>April 3, 2010</b> | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| Sales                                                  | \$ 8,000                  | \$ 6,916             | \$ 15,615               | \$ 13,551            |
| Cost of Sales                                          | 7,467                     | 6,352                | 14,338                  | 12,458               |
| Gross Profit                                           | 533                       | 564                  | 1,277                   | 1,093                |
| Selling, General and Administrative                    | 230                       | 220                  | 476                     | 435                  |
| Operating Income                                       | 303                       | 344                  | 801                     | 658                  |
| Other (Income) Expense:                                |                           |                      |                         |                      |
| Interest income                                        | (3)                       | (4)                  | (6)                     | (7)                  |
| Interest expense                                       | 63                        | 100                  | 129                     | 180                  |
| Other, net                                             | 2                         | (1)                  | (8)                     | 0                    |
| Total Other (Income) Expense                           | 62                        | 95                   | 115                     | 173                  |
| Income before Income Taxes                             | 241                       | 249                  | 686                     | 485                  |
| Income Tax Expense                                     | 85                        | 93                   | 236                     | 170                  |
| Net Income                                             | 156                       | 156                  | 450                     | 315                  |
| Less: Net Loss Attributable to Noncontrolling Interest | (3)                       | (3)                  | (7)                     | (4)                  |
| Net Income Attributable to Tyson                       | \$ 159                    | \$ 159               | \$ 457                  | \$ 319               |
| Weighted Average Shares Outstanding:                   |                           |                      |                         |                      |
| Class A Basic                                          | 305                       | 303                  | 305                     | 303                  |
| Class B Basic                                          | 70                        | 70                   | 70                      | 70                   |
| Diluted                                                | 383                       | 378                  | 381                     | 377                  |
| Net Income Per Share Attributable to Tyson:            |                           |                      |                         |                      |
| Class A Basic                                          | \$ 0.43                   | \$ 0.43              | \$ 1.24                 | \$ 0.87              |
| Class B Basic                                          | \$ 0.39                   | \$ 0.39              | \$ 1.12                 | \$ 0.78              |
| Diluted                                                | \$ 0.42                   | \$ 0.42              | \$ 1.20                 | \$ 0.84              |
| 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.



**Table of Contents****TYSON FOODS, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(In millions, except share and per share data)

(Unaudited)

|                                                                                                      | April 2, 2011 | October 2, 2010 |
|------------------------------------------------------------------------------------------------------|---------------|-----------------|
| <b>Assets</b>                                                                                        |               |                 |
| Current Assets:                                                                                      |               |                 |
| Cash and cash equivalents                                                                            | \$ 794        | \$ 978          |
| Accounts receivable, net                                                                             | 1,256         | 1,198           |
| Inventories, net                                                                                     | 2,730         | 2,274           |
| Other current assets                                                                                 | 157           | 168             |
| Total Current Assets                                                                                 | 4,937         | 4,618           |
| Net Property, Plant and Equipment                                                                    | 3,762         | 3,674           |
| Goodwill                                                                                             | 1,895         | 1,893           |
| Intangible Assets                                                                                    | 161           | 166             |
| Other Assets                                                                                         | 471           | 401             |
| Total Assets                                                                                         | \$ 11,226     | \$ 10,752       |
| <b>Liabilities and Shareholders' Equity</b>                                                          |               |                 |
| Current Liabilities:                                                                                 |               |                 |
| Current debt                                                                                         | \$ 390        | \$ 401          |
| Accounts payable                                                                                     | 1,126         | 1,110           |
| Other current liabilities                                                                            | 963           | 1,034           |
| Total Current Liabilities                                                                            | 2,479         | 2,545           |
| Long-Term Debt                                                                                       | 2,105         | 2,135           |
| Deferred Income Taxes                                                                                | 389           | 321             |
| Other Liabilities                                                                                    | 500           | 486             |
| Redeemable Noncontrolling Interest                                                                   | 65            | 64              |
| 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                                                                       | 2,252         | 2,243           |
| Retained earnings                                                                                    | 3,538         | 3,113           |
| Accumulated other comprehensive income                                                               | 17            | 0               |
| Treasury stock, at cost 13 million shares at April 2, 2011, and 15 million shares at October 2, 2010 | (197)         | (229)           |
| Total Tyson Shareholders' Equity                                                                     | 5,649         | 5,166           |
| Noncontrolling Interest                                                                              | 39            | 35              |
| Total Shareholders' Equity                                                                           | 5,688         | 5,201           |
| Total Liabilities and Shareholders' Equity                                                           | \$ 11,226     | \$ 10,752       |

See accompanying Notes to Consolidated Condensed Financial Statements.



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

|                                                               | <b>Six Months Ended</b> |                      |
|---------------------------------------------------------------|-------------------------|----------------------|
|                                                               | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| <b>Cash Flows From Operating Activities:</b>                  |                         |                      |
| Net income                                                    | \$ 450                  | \$ 315               |
| Depreciation and amortization                                 | 256                     | 247                  |
| Deferred income taxes                                         | 60                      | 1                    |
| Other, net                                                    | 40                      | 47                   |
| Net changes in working capital                                | (552)                   | (124)                |
| <b>Cash Provided by Operating Activities</b>                  | <b>254</b>              | <b>486</b>           |
| <b>Cash Flows From Investing Activities:</b>                  |                         |                      |
| Additions to property, plant and equipment                    | (319)                   | (264)                |
| Purchases of marketable securities                            | (107)                   | (26)                 |
| Proceeds from sale of marketable securities                   | 27                      | 22                   |
| Other, net                                                    | 25                      | 41                   |
| <b>Cash Used for Investing Activities</b>                     | <b>(374)</b>            | <b>(227)</b>         |
| <b>Cash Flows From Financing Activities:</b>                  |                         |                      |
| Payments on debt                                              | (65)                    | (555)                |
| Net proceeds from borrowings                                  | 0                       | 15                   |
| Change in restricted cash to be used for financing activities | 0                       | 140                  |
| Purchases of treasury shares                                  | (21)                    | (31)                 |
| Dividends                                                     | (30)                    | (30)                 |
| Other, net                                                    | 45                      | 15                   |
| <b>Cash Used for Financing Activities</b>                     | <b>(71)</b>             | <b>(446)</b>         |
| <b>Effect of Exchange Rate Change on Cash</b>                 | <b>7</b>                | <b>(5)</b>           |
| <b>Decrease in Cash and Cash Equivalents</b>                  | <b>(184)</b>            | <b>(192)</b>         |
| <b>Cash and Cash Equivalents at Beginning of Year</b>         | <b>978</b>              | <b>1,004</b>         |
| <b>Cash and Cash Equivalents at End of Period</b>             | <b>\$ 794</b>           | <b>\$ 812</b>        |

See accompanying Notes to Consolidated Condensed Financial Statements.

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**TYSON FOODS, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1: ACCOUNTING POLICIES**

***BASIS OF PRESENTATION***

The consolidated condensed financial statements have been prepared by Tyson Foods, Inc. (Tyson, the Company, we, us or our). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended October 2, 2010. 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 2, 2011, the results of operations for the three and six months ended April 2, 2011, and April 3, 2010, and cash flows for the six months ended April 2, 2011, and April 3, 2010. 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. At April 2, 2011, Dynamic Fuels had \$171 million of total assets, of which \$149 million was property, plant and equipment, and \$112 million of total liabilities, of which \$100 million was long-term debt. At October 2, 2010, Dynamic Fuels had \$154 million of total assets, of which \$145 million was property, plant and equipment, and \$107 million of total liabilities, of which \$100 million was long-term debt.

***RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS***

In June 2009, the Financial Accounting Standards Board (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. We adopted this guidance at the beginning of fiscal year 2011. The adoption did not have a significant impact on our consolidated condensed financial statements.

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. We adopted this guidance at the beginning of fiscal year 2011. The adoption did not have a significant impact on our consolidated condensed financial statements.

**NOTE 2: OTHER INCOME AND CHARGES**

During the first six months of fiscal 2011, we recorded an \$11 million gain related to a sale of interests in an equity method investment. This gain was recorded in the Consolidated Condensed Statements of Income in Other, net.



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### **NOTE 3: 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 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 2, 2011.

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 and option 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 and option commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 18 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 2, 2011, and April 3, 2010.

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

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|            | Metric  | April 2, 2011 | October 2, 2010 |
|------------|---------|---------------|-----------------|
| Commodity: |         |               |                 |
| Corn       | Bushels | 15 million    | 16 million      |
| Soy meal   | Tons    | 220,200       | 101,500         |

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The net amount of pretax gains in accumulated OCI as of April 2, 2011, expected to be reclassified into earnings within the next 12 months, was \$11 million. During the three and six months ended April 2, 2011, and April 3, 2010, we did not reclassify significant 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)<br>Recognized in OCI<br>On Derivatives<br>Three Months Ended |                     | Consolidated Condensed<br>Statements of Income<br>Classification | Gain/(Loss)<br>Reclassified from<br>OCI to Earnings<br>Three Months Ended |                     |
|----------------------------------------------------------------|--------------------------------------------------------------------------|---------------------|------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------|
|                                                                | April<br>2,<br>2011                                                      | April<br>3,<br>2010 |                                                                  | April<br>2,<br>2011                                                       | April<br>3,<br>2010 |
| Cash Flow Hedge Derivatives designated as hedging instruments: |                                                                          |                     |                                                                  |                                                                           |                     |
| Commodity contracts                                            | \$ 3                                                                     | \$ (7)              | Cost of Sales                                                    | \$ 6                                                                      | \$ 1                |
|                                                                |                                                                          |                     |                                                                  |                                                                           |                     |
|                                                                | Gain/(Loss)<br>Recognized in OCI<br>On Derivatives<br>Six Months Ended   |                     | Consolidated Condensed<br>Statements of Income<br>Classification | Gain/(Loss)<br>Reclassified from<br>OCI to Earnings<br>Six Months Ended   |                     |
|                                                                | April<br>2,<br>2011                                                      | April<br>3,<br>2010 |                                                                  | April<br>2,<br>2011                                                       | April<br>3,<br>2010 |
| Cash Flow Hedge Derivatives designated as hedging instruments: |                                                                          |                     |                                                                  |                                                                           |                     |
| Commodity contracts                                            | \$ 28                                                                    | \$ (5)              | Cost of Sales                                                    | \$ 26                                                                     | \$ (1)              |
| <i>Fair value hedges</i>                                       |                                                                          |                     |                                                                  |                                                                           |                     |

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 2, 2011 | October 2, 2010 |
|-------------|--------|---------------|-----------------|
| Commodity:  |        |               |                 |
| Live Cattle | Pounds | 655 million   | 361 million     |
| Lean Hogs   | Pounds | 630 million   | 508 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 same period. We include the gain or loss on the hedged items (i.e., livestock purchase firm commitments) in the same line item, Cost of Sales, as the offsetting gain or loss on the related livestock forward position.

| Consolidated<br>Condensed<br>Statements of Income<br>Classification | Three Months Ended |               | in millions<br>Six Months Ended |               |
|---------------------------------------------------------------------|--------------------|---------------|---------------------------------|---------------|
|                                                                     | April 2, 2011      | April 3, 2010 | April 2, 2011                   | April 3, 2010 |

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|                                                                                                                                           |               |         |         |         |         |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------|---------|---------|---------|
| Loss on forwards                                                                                                                          | Cost of Sales | \$ (43) | \$ (17) | \$ (44) | \$ (16) |
| Gain on purchase contract                                                                                                                 | Cost of Sales | 43      | 17      | 44      | 16      |
| Ineffectiveness related to our fair value hedges was not significant for the three and six months ended April 2, 2011, and April 3, 2010. |               |         |         |         |         |

**Table of Contents****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 2, 2011, and April 3, 2010. At April 2, 2011, and October 2, 2010, we had \$51 million and \$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)<br>Recognized in OCI<br>On Derivatives<br>Three Months Ended |                     | Consolidated Condensed<br>Statements of Income<br>Classification | Gain/(Loss)<br>Reclassified from<br>OCI to Earnings<br>Three Months Ended |                     |
|----------------------------|------------------------------------------------|--------------------------------------------------------------------------|---------------------|------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------|
|                            |                                                | April<br>2,<br>2011                                                      | April<br>3,<br>2010 |                                                                  | April<br>2,<br>2011                                                       | April<br>3,<br>2010 |
| Net Investment Hedge       | Derivatives designated as hedging instruments: |                                                                          |                     |                                                                  |                                                                           |                     |
| Foreign exchange contracts |                                                | \$ (2)                                                                   | \$ (1)              | Other Income/Expense                                             | \$ 0                                                                      | \$ 0                |

|                            |                                                | Gain/(Loss)<br>Recognized in OCI<br>On Derivatives<br>Six Months Ended |                     | Consolidated Condensed<br>Statements of Income<br>Classification | Gain/(Loss)<br>Reclassified from<br>OCI to Earnings<br>Six Months Ended |                     |
|----------------------------|------------------------------------------------|------------------------------------------------------------------------|---------------------|------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------|
|                            |                                                | April<br>2,<br>2011                                                    | April<br>3,<br>2010 |                                                                  | April<br>2,<br>2011                                                     | April<br>3,<br>2010 |
| Net Investment Hedge       | Derivatives designated as hedging instruments: |                                                                        |                     |                                                                  |                                                                         |                     |
| Foreign exchange contracts |                                                | \$ (3)                                                                 | \$ (1)              | Other Income/Expense                                             | \$ 0                                                                    | \$ 0                |

**Undesignated positions**

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

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

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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.

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

|                  | Metric                        | April 2, 2011  | October 2, 2010 |
|------------------|-------------------------------|----------------|-----------------|
| Commodity:       |                               |                |                 |
| Corn             | Bushels                       | 57 million     | 38 million      |
| Soy meal         | Tons                          | 365,700        | 367,000         |
| Live Cattle      | Pounds                        | 28 million     | 73 million      |
| Lean Hogs        | Pounds                        | 136 million    | 134 million     |
| Natural Gas      | British thermal units         | 400 billion    | 450 billion     |
| Foreign Currency | United States dollars         | \$ 202 million | \$ 146 million  |
| Interest Rate    | Average monthly notional debt | \$ 47 million  | \$ 53 million   |

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

|                            | Consolidated Condensed<br>Statements of Income<br>Classification | Gain/(Loss)<br>Recognized in Earnings<br>Three Months<br>Ended |                  | Gain/(Loss)<br>Recognized in Earnings<br>Six Months Ended |                  |
|----------------------------|------------------------------------------------------------------|----------------------------------------------------------------|------------------|-----------------------------------------------------------|------------------|
|                            |                                                                  | April 2,<br>2011                                               | April 3,<br>2010 | April 2,<br>2011                                          | April 3,<br>2010 |
|                            |                                                                  | Derivatives not designated as<br>hedging instruments:          |                  |                                                           |                  |
|                            |                                                                  |                                                                |                  |                                                           |                  |
| Commodity contracts        | Sales                                                            | \$ 17                                                          | \$ 14            | \$ 31                                                     | \$ 22            |
| Commodity contracts        | Cost of Sales                                                    | (10)                                                           | (24)             | 11                                                        | (31)             |
| Foreign exchange contracts | Other Income/Expense                                             | (6)                                                            | 0                | (7)                                                       | (2)              |
| Total                      |                                                                  | \$ 1                                                           | \$ (10)          | \$ 35                                                     | \$ (11)          |

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

|                                                    | Fair Value       |                    |
|----------------------------------------------------|------------------|--------------------|
|                                                    | April 2,<br>2011 | October 2,<br>2010 |
| <b>Derivative Assets:</b>                          |                  |                    |
| Derivatives designated as hedging instruments:     |                  |                    |
| Commodity contracts                                | \$ 7             | \$ 20              |
| Derivatives not designated as hedging instruments: |                  |                    |
| Commodity contracts                                | 79               | 10                 |
| Foreign exchange contracts                         | 1                | 1                  |
| Total derivative assets not designated             | 80               | 11                 |
| Total derivative assets                            | \$ 87            | \$ 31              |
| <b>Derivative Liabilities:</b>                     |                  |                    |
| Derivatives designated as hedging instruments:     |                  |                    |
| Commodity contracts                                | \$ 138           | \$ 16              |

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Derivatives not designated as hedging instruments:

|                            |    |    |
|----------------------------|----|----|
| Commodity contracts        | 93 | 34 |
| Foreign exchange contracts | 8  | 6  |
| Interest rate contracts    | 2  | 3  |

|                              |                |     |    |
|------------------------------|----------------|-----|----|
| Total derivative liabilities | not designated | 103 | 43 |
|------------------------------|----------------|-----|----|

|                              |  |        |       |
|------------------------------|--|--------|-------|
| Total derivative liabilities |  | \$ 241 | \$ 59 |
|------------------------------|--|--------|-------|

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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 9: Fair Value Measurements for a reconciliation to amounts reported in the Consolidated Condensed Balance Sheets in Other current assets and Other current liabilities.

**NOTE 4: 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 2, 2011 | October 2, 2010 |
|----------------------------------------------------|---------------|-----------------|
| Processed products:                                |               |                 |
| Weighted-average method chicken and prepared foods | \$ 716        | \$ 721          |
| First-in, first-out method beef and pork           | 600           | 462             |
| Livestock first-in, first-out method               | 1,034         | 759             |
| Supplies and other weighted-average method         | 380           | 332             |
| Total inventories, net                             | \$ 2,730      | \$ 2,274        |

**NOTE 5: PROPERTY, PLANT AND EQUIPMENT**

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

|                                            | April 2, 2011 | October 2, 2010 |
|--------------------------------------------|---------------|-----------------|
| Land                                       | \$ 98         | \$ 97           |
| Buildings and leasehold improvements       | 2,688         | 2,617           |
| Machinery and equipment                    | 4,822         | 4,694           |
| Land improvements and other                | 387           | 232             |
| Buildings and equipment under construction | 393           | 513             |
|                                            | 8,388         | 8,153           |
| Less accumulated depreciation              | 4,626         | 4,479           |
| Net property, plant and equipment          | \$ 3,762      | \$ 3,674        |

**NOTE 6: OTHER CURRENT LIABILITIES**

Other current liabilities are as follows (in millions):

|                                      | April 2, 2011 | October 2, 2010 |
|--------------------------------------|---------------|-----------------|
| Accrued salaries, wages and benefits | \$ 355        | \$ 444          |
| Self-insurance reserves              | 288           | 256             |
| Other                                | 320           | 334             |
| Total other current liabilities      | \$ 963        | \$ 1,034        |

**NOTE 7: COMMITMENTS**

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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 ten years, and the maximum potential amount of future payments as of April 2, 2011, was \$77 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The remaining terms of the lease maturities cover periods over the next six years. The maximum potential amount of the residual value guarantees is \$44 million, of which \$42 million would be recoverable through various recourse provisions and an additional undeterminable recoverable amount based on the fair value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At April 2, 2011, and October 2, 2010, no material liabilities for guarantees were recorded.

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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 2, 2011, was approximately \$215 million. The total receivables under these programs were \$54 million and \$51 million at April 2, 2011, and October 2, 2010, 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 and personal guarantees. After analyzing residual credit risks and general market conditions, we have recorded an allowance for these programs' estimated uncollectible receivables of \$16 million and \$15 million at April 2, 2011, and October 2, 2010, 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 2, 2011, the put options, if they had been exercisable, would have resulted in a purchase price of approximately \$66 million for the minority partner's entire equity interest.

**NOTE 8: DEBT**

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

|                                                               | April 2, 2011 | October 2, 2010 |
|---------------------------------------------------------------|---------------|-----------------|
| Revolving credit facility                                     | \$ 0          | \$ 0            |
| Senior notes:                                                 |               |                 |
| 8.25% Notes due October 2011 (2011 Notes)                     | 314           | 315             |
| 3.25% Convertible senior notes due October 2013 (2013 Notes)  | 458           | 458             |
| 10.50% Senior notes due March 2014 (2014 Notes)               | 810           | 810             |
| 6.85% Senior notes due April 2016 (2016 Notes)                | 643           | 701             |
| 7.00% Notes due May 2018                                      | 120           | 122             |
| 7.00% Notes due January 2028                                  | 18            | 18              |
| Discount on senior notes                                      | (90)          | (105)           |
| GO Zone tax-exempt bonds due October 2033 (0.17% at 4/2/2011) | 100           | 100             |
| Other                                                         | 122           | 117             |
| Total debt                                                    | 2,495         | 2,536           |
| Less current debt                                             | 390           | 401             |
| Total long-term debt                                          | \$ 2,105      | \$ 2,135        |

**Revolving Credit Facility**

In February 2011, we amended and extended our \$1.0 billion revolving credit facility that supports short-term funding needs and letters of credit. The facility will mature and the commitments thereunder will terminate in February 2016, provided that (a) at any time during the six-month period ending November 29, 2013, we have corporate credit ratings not lower than BBB- and Baa3 from Standard & Poor's (S&P) and Moody's Investor Services, Inc. (Moody's), respectively, in each case with stable outlook or better, (b) on or prior to November 29, 2013, we have refinanced, purchased, or defeased the 2014 Notes, or (c) we have irrevocably deposited cash in an amount not less than the aggregate principal amount of the outstanding 2014 Notes on or prior to November 29, 2013, in a blocked cash collateral account. In the event none of the foregoing events have occurred, the loans made under this facility will mature and the commitments thereunder will terminate on November 29, 2013. As of April 2, 2011, none of the foregoing events have occurred.

After reducing the amount available by outstanding letters of credit issued under this facility, the amount available for borrowing under this facility at April 2, 2011, was \$842 million. At April 2, 2011, we had outstanding letters of credit issued under this facility totaling \$158 million, none of which were drawn upon. Our letters of credit are issued primarily in support of workers' compensation insurance programs, derivative

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activities and Dynamic Fuels Gulf Opportunity Zone tax-exempt bonds. We had an additional \$57 million of bilateral letters of credit not issued under this facility, none of which were drawn upon.

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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. However, if at any time on or after August 23, 2011, our corporate credit rating is at least Baa3 or BBB-, in each case with stable outlook or better, from Moody's or S&P, respectively, and at least Ba2 or BB, in each case with stable outlook or better, from the other rating agency, then at our request, the lenders will release the liens securing this facility.

### ***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 2, 2011, 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.

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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.

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### ***2016 Notes***

On August 19, 2010, S&P upgraded the credit rating of these notes from BB to BB+. On September 2, 2010, Moody's upgraded our credit rating from Ba3 to Ba2. These upgrades decreased the interest rate on the 2016 Notes from 7.85% to 7.35%, effective beginning with the six-month interest payment due October 1, 2010.

On February 24, 2011, S&P upgraded the credit rating of these notes from BB+ to BBB-. On March 29, 2011, Moody's upgraded our credit rating from Ba2 to Ba1. These upgrades decreased the interest rate on the 2016 Notes from 7.35% to 6.85%, effective beginning with the six-month interest payment due April 1, 2011.

### ***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.

### ***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. In addition, we are required to maintain minimum interest expense coverage and maximum leverage ratios.

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.

We were in compliance with all debt covenants at April 2, 2011.

## **NOTE 9: FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

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

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

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets in non-active markets;

Inputs other than quoted prices that are observable for the asset or liability; and

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Inputs derived principally from or corroborated by other observable market data.

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

### ***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

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

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| <b>April 2, 2011</b>                  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Netting (a)</b> | <b>Total</b>  |
|---------------------------------------|----------------|----------------|----------------|--------------------|---------------|
| <b>Assets:</b>                        |                |                |                |                    |               |
| Commodity Derivatives                 | \$ 0           | \$ 86          | \$ 0           | \$ (46)            | \$ 40         |
| Foreign Exchange Forward Contracts    | 0              | 1              | 0              | (1)                | 0             |
| <b>Available for Sale Securities:</b> |                |                |                |                    |               |
| Debt securities                       | 0              | 45             | 73             | 0                  | 118           |
| Equity securities                     | 18             | 2              | 0              | 0                  | 20            |
| Deferred Compensation Assets          | 0              | 166            | 0              | 0                  | 166           |
| <b>Total Assets</b>                   | <b>\$ 18</b>   | <b>\$ 300</b>  | <b>\$ 73</b>   | <b>\$ (47)</b>     | <b>\$ 344</b> |
| <b>Liabilities:</b>                   |                |                |                |                    |               |
| Commodity Derivatives                 | \$ 0           | \$ 231         | \$ 0           | \$ (231)           | \$ 0          |
| Foreign Exchange Forward Contracts    | 0              | 8              | 0              | (1)                | 7             |
| Interest Rate Swap                    | 0              | 2              | 0              | 0                  | 2             |
| <b>Total Liabilities</b>              | <b>\$ 0</b>    | <b>\$ 241</b>  | <b>\$ 0</b>    | <b>\$ (232)</b>    | <b>\$ 9</b>   |
| <b>October 2, 2010</b>                |                |                |                |                    |               |
|                                       | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Netting (a)</b> | <b>Total</b>  |
| <b>Assets:</b>                        |                |                |                |                    |               |
| Commodity Derivatives                 | \$ 0           | \$ 30          | \$ 0           | \$ (18)            | \$ 12         |
| Foreign Exchange Forward Contracts    | 0              | 1              | 0              | (1)                | 0             |
| <b>Available for Sale Securities:</b> |                |                |                |                    |               |
| Debt securities                       | 0              | 42             | 73             | 0                  | 115           |
| Equity securities                     | 15             | 3              | 0              | 0                  | 18            |
| Deferred Compensation Assets          | 0              | 86             | 0              | 0                  | 86            |
| <b>Total Assets</b>                   | <b>\$ 15</b>   | <b>\$ 162</b>  | <b>\$ 73</b>   | <b>\$ (19)</b>     | <b>\$ 231</b> |
| <b>Liabilities:</b>                   |                |                |                |                    |               |
| Commodity Derivatives                 | \$ 0           | \$ 50          | \$ 0           | \$ (50)            | \$ 0          |
| Foreign Exchange Forward Contracts    | 0              | 6              | 0              | (1)                | 5             |
| Interest Rate Swap                    | 0              | 3              | 0              | (1)                | 2             |
| <b>Total Liabilities</b>              | <b>\$ 0</b>    | <b>\$ 59</b>   | <b>\$ 0</b>    | <b>\$ (52)</b>     | <b>\$ 7</b>   |

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At April 2, 2011, and October 2, 2010, we had posted \$185 million and \$35 million of cash collateral and held \$0 and \$3 million cash collateral with various counterparties, respectively.

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

|                                               | <b>Six Months Ended</b> |                      |
|-----------------------------------------------|-------------------------|----------------------|
|                                               | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| Balance at beginning of year                  | \$ 73                   | \$ 72                |
| Total realized and unrealized gains (losses): |                         |                      |
| Included in earnings                          | 0                       | 0                    |
| Included in other comprehensive income (loss) | 0                       | 1                    |

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|                                                                                                                                                                                           |       |       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| Purchases, issuances and settlements, net                                                                                                                                                 | 0     | 3     |
| Balance at end of period                                                                                                                                                                  | \$ 73 | \$ 76 |
| Total gains (losses) for the six-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period | \$ 0  | \$ 0  |

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

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**Derivative Assets and Liabilities:** Our derivatives, including commodities, foreign exchange forward contracts and an interest rate swap, primarily include exchange-traded and over-the-counter contracts which are further described in Note 3: Derivative Financial Instruments. We record our commodity derivatives at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward commodity market prices. Our foreign exchange forward contracts are recorded at fair value based on quoted prices and spot and forward currency prices adjusted for credit and non-performance risk. Our interest rate swap is recorded at fair value based on quoted LIBOR swap rates adjusted for credit and non-performance risk. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges, observable market transactions of spot currency rates and forward currency prices or observable benchmark market rates at commonly quoted intervals.

**Available for Sale Securities:** Our investments in marketable debt securities are classified as available-for-sale and are included in Other Assets in the Consolidated Condensed Balance Sheets. These investments, which are generally long-term in nature with maturities ranging up to 45 years, are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. We classify our investments in U.S. government and agency debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into proprietary valuation models, including estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle.

Additionally, we have eight million shares of Syntroleum Corporation common stock and 4.25 million warrants, which expire in early fiscal 2013, to purchase an equivalent amount of Syntroleum Corporation common stock at an average price of \$2.87. We record the shares and warrants in Other Assets in the Consolidated Condensed Balance Sheets at fair value based on quoted market prices. We classify the shares as Level 1 as the fair value is based on unadjusted quoted prices available in active markets. We classify the warrants as Level 2 as fair value can be corroborated based on observable market data.

| (in millions)                  | April 2, 2011              |               |                    | October 2, 2010            |               |                    |
|--------------------------------|----------------------------|---------------|--------------------|----------------------------|---------------|--------------------|
|                                | Amortized<br>Cost<br>Basis | Fair<br>Value | Unrealized<br>Gain | Amortized<br>Cost<br>Basis | Fair<br>Value | Unrealized<br>Gain |
| Available for Sale Securities: |                            |               |                    |                            |               |                    |
| Debt Securities:               |                            |               |                    |                            |               |                    |
| U.S. Treasury and Agency       | \$ 44                      | \$ 45         | \$ 1               | \$ 41                      | \$ 42         | \$ 1               |
| Corporate and Asset-Backed (a) | 41                         | 44            | 3                  | 43                         | 46            | 3                  |
| Redeemable Preferred Stock     | 29                         | 29            | 0                  | 27                         | 27            | 0                  |
| Equity Securities:             |                            |               |                    |                            |               |                    |
| Common Stock                   | 9                          | 18            | 9                  | 9                          | 15            | 6                  |
| Stock Warrants                 | 0                          | 2             | 2                  | 0                          | 3             | 3                  |

(a) At April 2, 2011, and October 2, 2010, the amortized cost basis for Corporate and Asset-Backed debt securities had been reduced by accumulated other than temporary impairments of \$3 million and \$3 million, respectively.

Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized no other than temporary impairments in earnings for the three and six months ending April 2, 2011, and April 3, 2010. No other than temporary losses were deferred in OCI as of April 2, 2011, and October 2, 2010.



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

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We did not have any significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three and six months ended April 2, 2011, and April 3, 2010.

**Other Financial Instruments**

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

|            | April 2, 2011 |                | October 2, 2010 |                |
|------------|---------------|----------------|-----------------|----------------|
|            | Fair Value    | Carrying Value | Fair Value      | Carrying Value |
| Total Debt | \$ 2,736      | \$ 2,495       | \$ 2,770        | \$ 2,536       |

For all of our other financial instruments, the estimated fair value approximated the carrying value at April 2, 2011, and October 2, 2010. The carrying value of our other financial instruments, not otherwise disclosed herein, included notes receivable, which approximated fair value at October 2, 2010. Notes receivable were recorded in Other Current Assets in the Consolidated Condensed Balance Sheets and totaled \$0 and \$49 million at April 2, 2011, and October 2, 2010, respectively. The fair values were determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

**NOTE 10: CONTINGENCIES**

We are involved in various claims and legal proceedings. We routinely assess the likelihood of adverse judgments or outcomes to those matters, as well as ranges of probable losses, to the extent losses are reasonably estimable. We record accruals for such matters to the extent that we conclude a loss is probable and the financial impact, should an adverse outcome occur, is reasonably estimable. Such accruals are reflected in the Company's Consolidated Condensed Financial Statements. In our opinion, we have made appropriate and adequate accruals for these matters and believe the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if accruals are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations. Listed below are certain claims made against the Company and/or our subsidiaries for which the potential exposure is considered material to the Company's Consolidated Condensed Financial Statements. We believe we have substantial defenses to the claims made and intend to vigorously defend these matters.

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

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The other private lawsuits referred to above are Sheila Ackles, et al. v. Tyson Foods, Inc. (N. Dist. Alabama, October 23, 2006); McCluster, et al. v. Tyson Foods, Inc. (M. Dist. Georgia, December 11, 2006); Dobbins, et al. v. Tyson Chicken, Inc., et al. (N.D. Alabama, December 21, 2006); Buchanan, et al. v. Tyson Chicken, Inc., et al. and Potter, et al. v. Tyson Chicken, Inc., et al. (N.D. Alabama, December 22, 2006); Jones, et al. v. Tyson Foods, Inc., et al., Walton, et al. v. Tyson Foods, Inc., et al. and Williams, et al. v. Tyson Foods, Inc., et al. (S.D. Mississippi, February 9, 2007); Balch, et al. v. Tyson Foods, Inc. (E.D. Oklahoma, March 1, 2007);

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Adams, et al. v. Tyson Foods, Inc. (W.D. Arkansas, March 2, 2007); Atkins, et al. v. Tyson Foods, Inc. (M.D. Georgia, March 5, 2007); Laney, et al. v. Tyson Foods, Inc. and Williams, et al. v. Tyson Foods, Inc. (M.D. Georgia, May 23, 2007) (the Williams Case). Similar to DeAsencio, each of these matters involves allegations that employees should be paid for the time it takes to engage in pre- and post-shift activities such as changing into and out of protective and sanitary clothing, obtaining clothing and walking to and from the changing area, work areas and break areas. The plaintiffs in each of these lawsuits seek or have sought to act as class representatives on behalf of all current and former employees who were allegedly not paid for time worked and seek back wages, liquidated damages, pre- and post-judgment interest, and attorneys' fees. On April 6, 2007, we filed a motion for transfer of the above named actions for coordinated pretrial proceedings before the Judicial Panel on Multidistrict Litigation, which was granted on August 17, 2007. These cases and five other cases subsequently filed involving the same allegations, Armstrong, et al. v. Tyson Foods, Inc. (W.D. Tennessee, January 30, 2008); Maldonado, et al. v. Tyson Foods, Inc. (E.D. Tennessee, January 31, 2008); White, et al. v. Tyson Foods, Inc. (E.D. Texas, February 1, 2008); Meyer, et al. v. Tyson Foods, Inc. (W.D. Missouri, February 2, 2008); and Leak, et al. v. Tyson Foods, Inc. (W.D. North Carolina, February 6, 2008), were transferred to the U.S. District Court in the Middle District of Georgia, In re: Tyson Foods, Inc., Fair Labor Standards Act Litigation (MDL Proceedings). On January 2, 2008, the Court issued a Joint Scheduling and Case Management Order. This order granted Conditional Class Certification and called for notice to be given to potential putative class members via a third party administrator. The potential class members had until April 18, 2008, to opt in to the class. Approximately 13,800 employees and former employees filed their consents to opt-in to the class. On October 15, 2008, the Court denied the plaintiffs' motion for equitable tolling, which, if granted, would have extended the time period in which the plaintiffs could have sought damages. However, in addition to the consents already obtained, the Court allowed the plaintiffs to obtain corrected and reaffirmed opt-in consents that were previously filed in the matter of M.H. Fox, et al. v. Tyson Foods, Inc. (N.D. Alabama, June 22, 1999). The deadline for filing these consents was December 31, 2008, and according to the third party administrator, approximately 4,000 reaffirmed consents were filed, some or all of which may be in addition to the approximately 13,800 consents filed previously. The parties have completed discovery at eight of our facilities and our corporate headquarters in Springdale, Arkansas. In July 2009 we filed class decertification motions for the eight facilities involved in discovery. We also filed Motions for Partial Summary Judgment for these eight facilities. Oral arguments for these motions occurred on February 3, 2010, and, on March 16, 2010, the Court granted partial summary judgment with respect to two unionized facilities and denied the remaining motions. The Court concluded that the activities at these two facilities met the definition of clothes changing under Section 203(o) of the FLSA and that the time engaged in pre- and post-shift donning and doffing is not compensable. The Court did not rule on whether Section 203(o) activity could begin the continuous work day, thereby making all walking, sanitizing and washing time after that activity compensable. We then filed a motion for certification of a permissive appeal on whether Section 203(o) activity can start the continuous workday and whether washing required clothing items is covered by Section 203(o). On April 23, 2010, the Court granted us permission to appeal these issues to the Eleventh Circuit Court of Appeals. The Court also retained jurisdiction with respect to the eight facilities while staying proceedings with respect to seven. It then scheduled trial in the Williams Case for October 12, 2010. On April 16, 2010, the Court lifted a previously entered stay of discovery with respect to our remaining 32 facilities subject to the MDL Proceedings and ordered the parties to meet, confer, and report to the Court any discovery agreements and disputed issues within 45 days. On June 7, 2010, the Court issued a scheduling order which set the close of discovery for the remaining 32 facilities for May 31, 2012. On September 22, 2010, the Court granted the parties joint motion to stay further proceedings in the MDL Proceedings, including the trial in the Williams case, in order to allow the parties an opportunity to explore settlement. The plaintiffs subsequently filed a motion to lift the stay, and the Court granted this motion on November 15, 2010. The parties have reached a settlement agreement for the back pay liability (exclusive of attorneys' fees) in the Williams case, which was set for trial on February 14, 2011. On January 21, 2011, the parties notified the court of their intention to file a motion for approval of the settlement agreement and a motion to file the agreement under seal. As part of the settlement, the parties also agreed to stay further MDL proceedings to allow the parties to continue to explore settlement of the remaining lawsuits.

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

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Each case is proceeding in its jurisdiction. After a trial in the Garcia case, a jury verdict in favor of the plaintiffs was entered on March 17, 2011 with respect to the Garden City, Kansas facility. Exclusive of pre- and post-judgment interest, attorneys' fees and costs, the jury found violations of federal and state laws for pre- and post-shift work activities and awarded damages in the amount of \$503,011, respectively. Trials in the Lopez, Bouaphakeo and Robinson cases are scheduled for May 16, 2011, September 7, 2011 and October 31, 2011, respectively.

We have pending one wage and hour action involving our Tyson Prepared Foods plant located in Jefferson, Wisconsin (Weissman, et al. v. Tyson Prepared Foods, Inc., Jefferson County (Wisconsin) Circuit Court, October 20, 2010). The plaintiffs allege that employees should be paid for the time it takes to engage in pre- and post-shift activities such as changing into and out of protective and sanitary clothing and the associated time it takes to walk to and from their workstations post-donning and pre-doffing of protective and sanitary clothing. Six named plaintiffs seek to act as state law class representatives on behalf of all current and former employees who were allegedly not paid for time worked and seek back wages, liquidated damages, pre- and post-judgment interest, and attorneys' fees and costs.

On June 19, 2005, the Attorney General and the Secretary of the Environment of the State of Oklahoma filed a complaint in the U.S. District Court for the Northern District of Oklahoma against us, three of our subsidiaries and six other poultry integrators. This complaint was subsequently amended. As amended, the complaint asserts a number of state and federal causes of action including, but not limited to, counts under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Resource Conservation and Recovery Act (RCRA), and state-law public nuisance theories. The amended complaint asserts that defendants and certain contract growers who are not named in the amended complaint polluted the surface waters, groundwater and associated drinking water supplies of the Illinois River Watershed (IRW) through the land application of poultry litter. Oklahoma asserts that this alleged pollution has also caused extensive injury to the environment (including soils and sediments) of the IRW and that the defendants have been unjustly enriched. Oklahoma's claims cover the entire IRW, which encompasses more than one million acres of land and the natural resources (including lakes and waterways) contained therein. Oklahoma seeks wide-ranging relief, including injunctive relief, compensatory damages in excess of \$800 million, an unspecified amount in punitive damages and attorneys' fees. We and the other defendants have denied liability, asserted various defenses, and filed a third-party complaint that asserts claims against other persons and entities whose activities may have contributed to the pollution alleged in the amended complaint. The district court has stayed proceedings on the third party complaint pending resolution of Oklahoma's claims against the defendants. On October 31, 2008, the defendants filed a motion to dismiss for failure to join the Cherokee Nation as a required party or, in the alternative, for judgment as a matter of law based on the plaintiffs' lack of standing. This motion was granted in part and denied in part on July 22, 2009. In its ruling, the district court dismissed Oklahoma's claims for cost recovery and for natural resources damages under CERCLA and for unjust enrichment under Oklahoma common law. This ruling also narrowed the scope of Oklahoma's remaining claims by dismissing all damage claims under its causes of action for Oklahoma common law nuisance, federal common law nuisance, and Oklahoma common law trespass, leaving only its claims for injunctive relief for trial. On August 18, 2009, the Court granted partial summary judgment in favor of the defendants on Oklahoma's claims for violations of the Oklahoma Registered Poultry Feeding Operations Act. Oklahoma later voluntarily dismissed the remainder of this claim. On September 2, 2009, the Cherokee Nation filed a motion to intervene in the lawsuit. Their motion to intervene was denied on September 15, 2009, and the Cherokee Nation filed a notice of appeal of that ruling in the Tenth Circuit Court of Appeals on September 17, 2009. A non-jury trial of the case began on September 24, 2009. At the close of Oklahoma's case-in-chief, the Court granted the defendants' motions to dismiss claims based on RCRA, nuisance per se, and health risks related to bacteria. The defense rested its case on January 13, 2010, and closing arguments were held on February 11, 2010. On September 21, 2010, the Court of Appeals affirmed the district court's denial of the Cherokee Nation's motion to intervene. On October 6, 2010 the Cherokee Nation and the State of Oklahoma filed a petition for rehearing or *en banc* review seeking reconsideration of this ruling. The Court of Appeals denied this petition.

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In September 2009, the National Water Commission (CONAGUA), an agency of the Mexican government's Ministry of the Environment and Natural Resources, sent an observation letter to our Mexican subsidiary, Tyson de Mexico (TdM), with respect to TdM's water usage at certain water wells that are part of its poultry production operations. This letter was in response to TdM's previous submission to CONAGUA of requested information relating to water usage from these wells from 2004 to 2007. In the observation letter, which contains an initial finding of facts, CONAGUA alleges that TdM may have failed to (i) report accurate water volume usage, (ii) install measuring equipment, (iii) provide evidence of water use exemptions, (iv) pay for applicable usage, and (v) properly measure water volume, all as required under water deeds held by TdM. On October 15, 2009, TdM responded to CONAGUA, denying the allegations as presented. On April 13, 2010, the regional CONAGUA office delivered its final determinations to TdM on this matter and claimed that TdM owed the agency approximately 55.9 million pesos (approximately US\$4.6 million) for certain water usage during the period in question. TdM appealed the regional office's final determinations to the administrative courts of CONAGUA in Mexico City. On March 30, 2011, CONAGUA revoked the regional office's final determinations and the 55.9 million pesos assessment. Although CONAGUA has the right to appeal its own decision, we do not expect it to do so.

On May 8, 2008, a lawsuit was filed against the Company and two of our employees in the District Court of McCurtain County, Oklahoma styled *Armstrong, et al. v. Tyson Foods, Inc., et al.* (the *Armstrong Case*). The lawsuit was brought by a group of 52 poultry growers who allege that certain of our live production practices in Oklahoma constitute fraudulent inducement, fraud, unjust enrichment, negligence, gross negligence, unconscionability, violations of the Oklahoma Business Sales Act, Deceptive Trade Practice violations, violations of the Consumer Protection Act, and conversion, as well as other theories of recovery. The plaintiffs sought damages in an unspecified amount. On October 30, 2009, 20 additional growers represented by the same attorney filed a lawsuit against us in the same court asserting the same or similar claims, which is styled *Clardy, et al. v. Tyson Foods, Inc., et al.* (the *Clardy Case*). In both of these cases we have denied all allegations of wrongdoing. In June 2009, the plaintiffs in the *Armstrong* case requested an expedited trial date for a smaller group of plaintiffs they claimed were facing imminent financial peril. The Court ultimately severed a group of 10 plaintiffs from the *Armstrong Case*, and a trial began on March 15, 2010. There were numerous irregularities and rulings during the trial which we believe to have been legally erroneous and highly prejudicial to our right to a fair trial. On April 1, 2010, the jury returned a verdict against us and one of our employees, and on April 2, 2010, the jury returned a punitive damages verdict against us. After a dispute caused by inconsistencies between the multiple verdict forms completed by the jury and apparent confusion by the jury as to how to complete those verdict forms, the Court entered a final judgment in the amount of \$8,655,735. Subsequent to the trial, the presiding judge disqualified from the cases and the Oklahoma Supreme Court appointed a new judge to the cases. The Company filed post-trial motions challenging the verdict. Those motions were denied. The Company has appealed the verdict to the Oklahoma Supreme Court. We filed a motion with the trial court to change venue from McCurtain County on the grounds that the numerous irregularities that occurred during the trial, coupled with the attendant publicity, resulted in community bias which would prevent the Company from receiving a fair trial in McCurtain County. The trial court granted this motion and the case will be transferred to Choctaw County, Oklahoma. We filed another motion, which the trial court also granted, to stay all future trials of the claims of the plaintiffs in the *Armstrong Case* and the *Clardy Case* pending the outcome of the appeal of the first trial. We also filed a motion to sever all of the plaintiffs' claims into individual cases, which was heard on January 25, 2010. This motion was denied, but the Court took under advisement the sizes and groupings of plaintiffs in future trials. We believe numerous and substantial legal errors were made by the Court during the trial and that a review of and guidance on these issues by the appellate court could have a substantial impact on the outcome of future trials in the *Armstrong Case* and the *Clardy Case*.

In November 2006, the Audit Committee of our Board of Directors engaged outside counsel to conduct a review of certain payments that had been made by one of our subsidiaries in Mexico, including payments to individuals employed by Mexican governmental bodies. The payments, the amount of which we believe are immaterial, were discontinued in November 2006. We voluntarily informed the Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) of our review and preliminary findings. On February 4, 2011, we entered into a deferred prosecution agreement (DPA) with the DOJ. Under the terms of the DPA, we accepted and acknowledged that the DOJ would file a criminal information in federal court charging us with conspiracy to commit a violation of the Foreign Corrupt Practices Act (the FCPA) and for violating the FCPA. The DOJ agreed to defer the prosecution for these charges during the two-year term of the DPA, and if we have fully complied with the DPA, to move to dismiss the criminal information upon the expiration of the DPA. We agreed to pay a monetary penalty to the DOJ of \$4 million and to adopt and maintain certain compliance, remedial, and self-reporting measures. On the same day, we consented to the SEC filing a civil complaint and final judgment in federal court related to the DOJ criminal information described above. This judgment requires us to adopt self-reporting and compliance measures over a two-year period from the date the judgment was entered. As part of the SEC action, we agreed to disgorge \$880,786 in profits and pay approximately \$330,000 in pre-judgment interest. In the event that we learn of any corrupt payments within two years from the date of the DPA and SEC action, we are required to report those payments to the DOJ and SEC.

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**NOTE 11: INCOME TAXES**

The effective tax rate was 34.9% and 37.1% for the second quarter of fiscal years 2011 and 2010, respectively. The effective tax rate was 34.3% and 35.0% for the six months of fiscal years 2011 and 2010, respectively. The effective tax rate for the second quarter and six months of fiscal 2011 was impacted by such items as state income taxes, losses in foreign jurisdictions and related valuation allowances, the domestic production deduction, general business credits and adjustments to uncertain tax positions due to tax audit resolutions. Additionally, the effective tax rate for the six months of fiscal 2011 was impacted by the reduction of a valuation allowance related to an equity method investment.

Unrecognized tax benefits were \$190 million and \$184 million at April 2, 2011, and October 2, 2010, respectively. The amount of unrecognized tax benefits, if recognized, that would impact our effective tax rate was \$149 million and \$150 million at April 2, 2011, and October 2, 2010, respectively.

We classify interest and penalties on unrecognized tax benefits as income tax expense. At April 2, 2011 and October 2, 2010, before tax benefits, we had \$66 million and \$64 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

We are subject to income tax examinations for U.S. federal income taxes for fiscal years 1998 through 2009, excluding fiscal years 2001 and 2002. We are also subject to income tax examinations for foreign, state and local income taxes for fiscal years 2001 through 2009. Within the next twelve months, tax audit resolutions could reduce unrecognized tax benefits either because tax positions are sustained on audit or because we agree to their disallowance; however, the range of the possible change cannot be reasonably estimated at this time.

**Table of Contents****NOTE 12: EARNINGS PER SHARE**

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

|                                                                                                          | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|----------------------------------------------------------------------------------------------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                                                                                          | <b>April 2, 2011</b>      | <b>April 3, 2010</b> | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| <b>Numerator:</b>                                                                                        |                           |                      |                         |                      |
| Net income                                                                                               | \$ 156                    | \$ 156               | \$ 450                  | \$ 315               |
| Less: Net loss attributable to noncontrolling interest                                                   | (3)                       | (3)                  | (7)                     | (4)                  |
| Net income attributable to Tyson                                                                         | 159                       | 159                  | 457                     | 319                  |
| <b>Less Dividends:</b>                                                                                   |                           |                      |                         |                      |
| Class A (\$0.040/share/quarter)                                                                          | 13                        | 13                   | 25                      | 25                   |
| Class B (\$0.036/share/quarter)                                                                          | 2                         | 2                    | 5                       | 5                    |
| Undistributed earnings                                                                                   | \$ 144                    | \$ 144               | \$ 427                  | \$ 289               |
| Class A undistributed earnings                                                                           | \$ 120                    | \$ 119               | \$ 354                  | \$ 239               |
| Class B undistributed earnings                                                                           | 24                        | 25                   | 73                      | 50                   |
| Total undistributed earnings                                                                             | \$ 144                    | \$ 144               | \$ 427                  | \$ 289               |
| <b>Denominator:</b>                                                                                      |                           |                      |                         |                      |
| <b>Denominator for basic earnings per share:</b>                                                         |                           |                      |                         |                      |
| Class A weighted average shares                                                                          | 305                       | 303                  | 305                     | 303                  |
| Class B weighted average shares, and shares under the if-converted method for diluted earnings per share | 70                        | 70                   | 70                      | 70                   |
| <b>Effect of dilutive securities:</b>                                                                    |                           |                      |                         |                      |
| Stock options and restricted stock                                                                       | 6                         | 5                    | 5                       | 4                    |
| Convertible 2013 Notes                                                                                   | 2                         | 0                    | 1                       | 0                    |
| Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions      | 383                       | 378                  | 381                     | 377                  |
| <b>Net Income Per Share Attributable to Tyson:</b>                                                       |                           |                      |                         |                      |
| Class A Basic                                                                                            | \$ 0.43                   | \$ 0.43              | \$ 1.24                 | \$ 0.87              |
| Class B Basic                                                                                            | \$ 0.39                   | \$ 0.39              | \$ 1.12                 | \$ 0.78              |
| Diluted                                                                                                  | \$ 0.42                   | \$ 0.42              | \$ 1.20                 | \$ 0.84              |

Approximately 4 million of our stock-based compensation shares were antidilutive for both the three and six months ended April 2, 2011, respectively, and approximately 7 million and 9 million of our stock-based compensation shares were antidilutive for the three and six months ended April 3, 2010, respectively. These shares were not included in the dilutive earnings per share calculation.

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

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



**Table of Contents****NOTE 13: COMPREHENSIVE INCOME**

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

|                                                            | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|------------------------------------------------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                                            | <b>April 2, 2011</b>      | <b>April 3, 2010</b> | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| Net income                                                 | \$ 156                    | \$ 156               | \$ 450                  | \$ 315               |
| Other comprehensive income (loss), net of tax:             |                           |                      |                         |                      |
| Net hedging unrealized gain reclassified to earnings       | (4)                       | (1)                  | (17)                    | 0                    |
| Net hedging unrealized gain (loss)                         | 2                         | (4)                  | 14                      | (3)                  |
| Unrealized gain (loss) on investments                      | 2                         | (3)                  | 0                       | (2)                  |
| Currency translation adjustment                            | 24                        | 6                    | 19                      | 12                   |
| Postretirement benefits reserve adjustments                | 1                         | 1                    | 1                       | 0                    |
| Total comprehensive income                                 | 181                       | 155                  | 467                     | 322                  |
| Comprehensive loss attributable to noncontrolling interest | (3)                       | (3)                  | (7)                     | (4)                  |
| Total comprehensive income attributable to Tyson           | \$ 184                    | \$ 158               | \$ 474                  | \$ 326               |

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

|                                                             | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|-------------------------------------------------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                                             | <b>April 2, 2011</b>      | <b>April 3, 2010</b> | <b>April 2, 2011</b>    | <b>April 3, 2010</b> |
| Income tax expense (benefit):                               |                           |                      |                         |                      |
| Net hedging unrealized (gain) loss reclassified to earnings | \$ (2)                    | \$ 0                 | \$ (9)                  | \$ 1                 |
| Net hedging unrealized gain (loss)                          | 1                         | (3)                  | 14                      | (2)                  |
| Total income tax expense (benefit)                          | \$ (1)                    | \$ (3)               | \$ 5                    | \$ (1)               |

**NOTE 14: SEGMENT REPORTING**

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

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

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

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

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

The results from Dynamic Fuels are included in Other.

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

|                                     | Three Months Ended |                 | Six Months Ended |                  |
|-------------------------------------|--------------------|-----------------|------------------|------------------|
|                                     | April 2, 2011      | April 3, 2010   | April 2, 2011    | April 3, 2010    |
| <b>Sales:</b>                       |                    |                 |                  |                  |
| Chicken                             | \$ 2,739           | \$ 2,491        | \$ 5,358         | \$ 4,916         |
| Beef                                | 3,333              | 2,804           | 6,518            | 5,521            |
| Pork                                | 1,384              | 1,097           | 2,622            | 2,044            |
| Prepared Foods                      | 778                | 734             | 1,584            | 1,447            |
| Other                               | 25                 | 0               | 33               | 0                |
| Intersegment Sales                  | (259)              | (210)           | (500)            | (377)            |
| <b>Total Sales</b>                  | <b>\$ 8,000</b>    | <b>\$ 6,916</b> | <b>\$ 15,615</b> | <b>\$ 13,551</b> |
| <b>Operating Income:</b>            |                    |                 |                  |                  |
| Chicken                             | \$ 37              | \$ 114          | \$ 218           | \$ 192           |
| Beef                                | 94                 | 126             | 210              | 245              |
| Pork                                | 146                | 69              | 323              | 131              |
| Prepared Foods                      | 31                 | 37              | 59               | 92               |
| Other                               | (5)                | (2)             | (9)              | (2)              |
| <b>Total Operating Income</b>       | <b>303</b>         | <b>344</b>      | <b>801</b>       | <b>658</b>       |
| <b>Total Other (Income) Expense</b> | <b>62</b>          | <b>95</b>       | <b>115(a)</b>    | <b>173</b>       |
| <b>Income before Income Taxes</b>   | <b>\$ 241</b>      | <b>\$ 249</b>   | <b>\$ 686</b>    | <b>\$ 485</b>    |

(a) Includes \$11 million gain related to a sale of interests in an equity method investment.

The Beef segment had sales of \$51 million and \$42 million in the second quarter of fiscal years 2011 and 2010, respectively, and sales of \$101 million and \$77 million in the six months of fiscal years 2011 and 2010, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of \$208 million and \$168 million in the second quarter of fiscal years 2011 and 2010, respectively, and sales of \$399 million and \$300 million in the six months of fiscal years 2011 and 2010, respectively, from transactions with other operating segments of the Company. The aforementioned sales from intersegment transactions, which were at market prices, were included in the segment sales in the above table.

## NOTE 15: 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).

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Condensed Consolidating Statement of Income for the three months ended April 2, 2011

in millions

|                                                        | 2014 Guarantors |               |            |              |          |                |              |          |
|--------------------------------------------------------|-----------------|---------------|------------|--------------|----------|----------------|--------------|----------|
|                                                        | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | Total    |
| Sales                                                  | \$ 10           | \$ 4,609      | \$ 3,302   | \$ (264)     | \$ 7,647 | \$ 347         | \$ (4)       | \$ 8,000 |
| Cost of Sales                                          | (8)             | 4,327         | 3,089      | (264)        | 7,152    | 327            | (4)          | 7,467    |
| Gross Profit                                           | 18              | 282           | 213        | 0            | 495      | 20             | 0            | 533      |
| Selling, General and Administrative                    | 9               | 51            | 150        | 0            | 201      | 20             | 0            | 230      |
| Operating Income                                       | 9               | 231           | 63         | 0            | 294      | 0              | 0            | 303      |
| Other (Income) Expense:                                |                 |               |            |              |          |                |              |          |
| Interest expense, net                                  | 27              | 23            | 13         | 0            | 36       | (3)            | 0            | 60       |
| Other, net                                             | 4               | 0             | (1)        | 0            | (1)      | (1)            | 0            | 2        |
| Equity in net earnings of subsidiaries                 | (168)           | (29)          | (3)        | 24           | (8)      | (4)            | 180          | 0        |
| Total Other (Income) Expense                           | (137)           | (6)           | 9          | 24           | 27       | (8)            | 180          | 62       |
| Income (Loss) before Income Taxes                      | 146             | 237           | 54         | (24)         | 267      | 8              | (180)        | 241      |
| Income Tax Expense (Benefit)                           | (13)            | 72            | 13         | 0            | 85       | 13             | 0            | 85       |
| Net Income (Loss)                                      | 159             | 165           | 41         | (24)         | 182      | (5)            | (180)        | 156      |
| Less: Net Loss Attributable to Noncontrolling Interest | 0               | 0             | 0          | 0            | 0        | (3)            | 0            | (3)      |
| Net Income (Loss) Attributable to Tyson                | \$ 159          | \$ 165        | \$ 41      | \$ (24)      | \$ 182   | \$ (2)         | \$ (180)     | \$ 159   |

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

in millions

|                                        | 2014 Guarantors |               |            |              |          |                |              |          |
|----------------------------------------|-----------------|---------------|------------|--------------|----------|----------------|--------------|----------|
|                                        | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | Total    |
| Sales                                  | \$ 128          | \$ 3,827      | \$ 3,061   | \$ (238)     | \$ 6,650 | \$ 266         | \$ (128)     | \$ 6,916 |
| Cost of Sales                          | 4               | 3,596         | 2,870      | (238)        | 6,228    | 248            | (128)        | 6,352    |
| Gross Profit                           | 124             | 231           | 191        | 0            | 422      | 18             | 0            | 564      |
| Selling, General and Administrative    | 25              | 44            | 131        | 0            | 175      | 20             | 0            | 220      |
| Operating Income (Loss)                | 99              | 187           | 60         | 0            | 247      | (2)            | 0            | 344      |
| Other (Income) Expense:                |                 |               |            |              |          |                |              |          |
| Interest expense, net                  | 94              | 1             | 4          | 0            | 5        | (3)            | 0            | 96       |
| Other, net                             | 4               | 1             | (6)        | 0            | (5)      | 0              | 0            | (1)      |
| Equity in net earnings of subsidiaries | (159)           | (10)          | 6          | 6            | 2        | (4)            | 161          | 0        |
| Total Other (Income) Expense           | (61)            | (8)           | 4          | 6            | 2        | (7)            | 161          | 95       |
| Income (Loss) before Income Taxes      | 160             | 195           | 56         | (6)          | 245      | 5              | (161)        | 249      |

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|                                                        |        |        |       |        |        |      |          |        |
|--------------------------------------------------------|--------|--------|-------|--------|--------|------|----------|--------|
| Income Tax Expense                                     | 1      | 64     | 20    | 0      | 84     | 8    | 0        | 93     |
| Net Income (Loss)                                      | 159    | 131    | 36    | (6)    | 161    | (3)  | (161)    | 156    |
| Less: Net Loss Attributable to Noncontrolling Interest | 0      | 0      | 0     | 0      | 0      | (3)  | 0        | (3)    |
| Net Income (Loss) Attributable to Tyson                | \$ 159 | \$ 131 | \$ 36 | \$ (6) | \$ 161 | \$ 0 | \$ (161) | \$ 159 |

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Condensed Consolidating Statement of Income for the six months ended April 2, 2011

in millions

|                                                        | 2014 Guarantors |               |            |              |           |                |              |           |
|--------------------------------------------------------|-----------------|---------------|------------|--------------|-----------|----------------|--------------|-----------|
|                                                        | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal  | Non-Guarantors | Eliminations | Total     |
| Sales                                                  | \$ 115          | \$ 8,942      | \$ 6,457   | \$ (505)     | \$ 14,894 | \$ 705         | \$ (99)      | \$ 15,615 |
| Cost of Sales                                          | (51)            | 8,327         | 6,015      | (505)        | 13,837    | 651            | (99)         | 14,338    |
| Gross Profit                                           | 166             | 615           | 442        | 0            | 1,057     | 54             | 0            | 1,277     |
| Selling, General and Administrative                    | 26              | 107           | 298        | 0            | 405       | 45             | 0            | 476       |
| Operating Income                                       | 140             | 508           | 144        | 0            | 652       | 9              | 0            | 801       |
| Other (Income) Expense:                                |                 |               |            |              |           |                |              |           |
| Interest expense, net                                  | (27)            | 83            | 71         | 0            | 154       | (4)            | 0            | 123       |
| Other, net                                             | (8)             | 0             | (2)        | 0            | (2)       | 2              | 0            | (8)       |
| Equity in net earnings of subsidiaries                 | (333)           | (51)          | (16)       | 44           | (23)      | (6)            | 362          | 0         |
| Total Other (Income) Expense                           | (368)           | 32            | 53         | 44           | 129       | (8)            | 362          | 115       |
| Income (Loss) before Income Taxes                      | 508             | 476           | 91         | (44)         | 523       | 17             | (362)        | 686       |
| Income Tax Expense                                     | 51              | 146           | 23         | 0            | 169       | 16             | 0            | 236       |
| Net Income (Loss)                                      | 457             | 330           | 68         | (44)         | 354       | 1              | (362)        | 450       |
| Less: Net Loss Attributable to Noncontrolling Interest | 0               | 0             | 0          | 0            | 0         | (7)            | 0            | (7)       |
| Net Income (Loss) Attributable to Tyson                | \$ 457          | \$ 330        | \$ 68      | \$ (44)      | \$ 354    | \$ 8           | \$ (362)     | \$ 457    |

Condensed Consolidating Statement of Income for the six months ended April 3, 2010

in millions

|                                        | 2014 Guarantors |               |            |              |           |                |              |           |
|----------------------------------------|-----------------|---------------|------------|--------------|-----------|----------------|--------------|-----------|
|                                        | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal  | Non-Guarantors | Eliminations | Total     |
| Sales                                  | \$ 221          | \$ 7,431      | \$ 5,986   | \$ (423)     | \$ 12,994 | \$ 555         | \$ (219)     | \$ 13,551 |
| Cost of Sales                          | (6)             | 6,985         | 5,596      | (423)        | 12,158    | 525            | (219)        | 12,458    |
| Gross Profit                           | 227             | 446           | 390        | 0            | 836       | 30             | 0            | 1,093     |
| Selling, General and Administrative    | 53              | 88            | 255        | 0            | 343       | 39             | 0            | 435       |
| Operating Income (Loss)                | 174             | 358           | 135        | 0            | 493       | (9)            | 0            | 658       |
| Other (Income) Expense:                |                 |               |            |              |           |                |              |           |
| Interest expense, net                  | 170             | 3             | 8          | 0            | 11        | (8)            | 0            | 173       |
| Other, net                             | 8               | 1             | (7)        | 0            | (6)       | (2)            | 0            | 0         |
| Equity in net earnings of subsidiaries | (323)           | (28)          | 16         | 18           | 6         | (10)           | 327          | 0         |
| Total Other (Income) Expense           | (145)           | (24)          | 17         | 18           | 11        | (20)           | 327          | 173       |
| Income (Loss) before Income Taxes      | 319             | 382           | 118        | (18)         | 482       | 11             | (327)        | 485       |

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|                                                        |        |        |       |         |        |      |          |        |
|--------------------------------------------------------|--------|--------|-------|---------|--------|------|----------|--------|
| Income Tax Expense                                     | 0      | 117    | 38    | 0       | 155    | 15   | 0        | 170    |
| Net Income (Loss)                                      | 319    | 265    | 80    | (18)    | 327    | (4)  | (327)    | 315    |
| Less: Net Loss Attributable to Noncontrolling Interest | 0      | 0      | 0     | 0       | 0      | (4)  | 0        | (4)    |
| Net Income (Loss) Attributable to Tyson                | \$ 319 | \$ 265 | \$ 80 | \$ (18) | \$ 327 | \$ 0 | \$ (327) | \$ 319 |

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Condensed Consolidating Balance Sheet as of April 2, 2011

in millions

|                                           | 2014 Guarantors |               |            |              |           |                |              |           |
|-------------------------------------------|-----------------|---------------|------------|--------------|-----------|----------------|--------------|-----------|
|                                           | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal  | Non-Guarantors | Eliminations | Total     |
| <b>Assets</b>                             |                 |               |            |              |           |                |              |           |
| Current Assets:                           |                 |               |            |              |           |                |              |           |
| Cash and cash equivalents                 | \$ 1            | \$ 1          | \$ 513     | \$ 0         | \$ 514    | \$ 279         | \$ 0         | \$ 794    |
| Accounts receivable, net                  | 0               | 1,962         | 4,393      | 0            | 6,355     | 154            | (5,253)      | 1,256     |
| Inventories, net                          | 4               | 1,051         | 1,464      | 0            | 2,515     | 211            | 0            | 2,730     |
| Other current assets                      | 29              | 32            | 85         | (21)         | 96        | 44             | (12)         | 157       |
| Total Current Assets                      | 34              | 3,046         | 6,455      | (21)         | 9,480     | 688            | (5,265)      | 4,937     |
| Net Property, Plant and Equipment         | 38              | 880           | 2,293      | 0            | 3,173     | 551            | 0            | 3,762     |
| Goodwill                                  | 0               | 881           | 967        | 0            | 1,848     | 47             | 0            | 1,895     |
| Intangible Assets                         | 0               | 34            | 51         | 0            | 85        | 76             | 0            | 161       |
| Other Assets                              | 2,278           | 248           | 153        | 0            | 401       | 298            | (2,506)      | 471       |
| Investment in Subsidiaries                | 11,101          | 1,868         | 663        | (1,687)      | 844       | 334            | (12,279)     | 0         |
| Total Assets                              | \$ 13,451       | \$ 6,957      | \$ 10,582  | \$ (1,708)   | \$ 15,831 | \$ 1,994       | \$ (20,050)  | \$ 11,226 |
| <b>Liabilities and Shareholders</b>       |                 |               |            |              |           |                |              |           |
| <b>Equity</b>                             |                 |               |            |              |           |                |              |           |
| Current Liabilities:                      |                 |               |            |              |           |                |              |           |
| Current debt                              | \$ 316          | \$ 0          | \$ 0       | \$ 0         | \$ 0      | \$ 74          | \$ 0         | \$ 390    |
| Accounts payable                          | 3               | 473           | 580        | 0            | 1,053     | 70             | 0            | 1,126     |
| Other current liabilities                 | 5,205           | 150           | 318        | (21)         | 447       | 576            | (5,265)      | 963       |
| Total Current Liabilities                 | 5,524           | 623           | 898        | (21)         | 1,500     | 720            | (5,265)      | 2,479     |
| Long-Term Debt                            | 1,963           | 1,420         | 916        | 0            | 2,336     | 142            | (2,336)      | 2,105     |
| Deferred Income Taxes                     | 30              | 104           | 240        | 0            | 344       | 15             | 0            | 389       |
| Other Liabilities                         | 285             | 144           | 185        | 0            | 329       | 56             | (170)        | 500       |
| Redeemable Noncontrolling Interest        | 0               | 0             | 0          | 0            | 0         | 65             | 0            | 65        |
| Total Tyson Shareholders Equity           | 5,649           | 4,666         | 8,343      | (1,687)      | 11,322    | 957            | (12,279)     | 5,649     |
| Noncontrolling Interest                   | 0               | 0             | 0          | 0            | 0         | 39             | 0            | 39        |
| Total Shareholders Equity                 | 5,649           | 4,666         | 8,343      | (1,687)      | 11,322    | 996            | (12,279)     | 5,688     |
| Total Liabilities and Shareholders Equity | \$ 13,451       | \$ 6,957      | \$ 10,582  | \$ (1,708)   | \$ 15,831 | \$ 1,994       | \$ (20,050)  | \$ 11,226 |

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Condensed Consolidating Balance Sheet as of October 2, 2010

in millions

|                                           | 2014 Guarantors |               |            |              |           |                |              |           |
|-------------------------------------------|-----------------|---------------|------------|--------------|-----------|----------------|--------------|-----------|
|                                           | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal  | Non-Guarantors | Eliminations | Total     |
| <b>Assets</b>                             |                 |               |            |              |           |                |              |           |
| Current Assets:                           |                 |               |            |              |           |                |              |           |
| Cash and cash equivalents                 | \$ 2            | \$ 2          | \$ 731     | \$ 0         | \$ 733    | \$ 243         | \$ 0         | \$ 978    |
| Accounts receivable, net                  | 0               | 2,389         | 4,670      | 0            | 7,059     | 132            | (5,993)      | 1,198     |
| Inventories, net                          | 0               | 734           | 1,361      | 0            | 2,095     | 179            | 0            | 2,274     |
| Other current assets                      | 43              | 49            | 27         | (9)          | 67        | 95             | (37)         | 168       |
| Total Current Assets                      | 45              | 3,174         | 6,789      | (9)          | 9,954     | 649            | (6,030)      | 4,618     |
| Net Property, Plant and Equipment         | 39              | 870           | 2,257      | 0            | 3,127     | 508            | 0            | 3,674     |
| Goodwill                                  | 0               | 880           | 967        | 0            | 1,847     | 46             | 0            | 1,893     |
| Intangible Assets                         | 0               | 37            | 53         | 0            | 90        | 76             | 0            | 166       |
| Other Assets                              | 2,804           | 101           | 61         | 0            | 162       | 295            | (2,860)      | 401       |
| Investment in Subsidiaries                | 10,776          | 1,785         | 631        | (1,607)      | 809       | 307            | (11,892)     | 0         |
| Total Assets                              | \$ 13,664       | \$ 6,847      | \$ 10,758  | \$ (1,616)   | \$ 15,989 | \$ 1,881       | \$ (20,782)  | \$ 10,752 |
| <b>Liabilities and Shareholders</b>       |                 |               |            |              |           |                |              |           |
| <b>Equity</b>                             |                 |               |            |              |           |                |              |           |
| Current Liabilities:                      |                 |               |            |              |           |                |              |           |
| Current debt                              | \$ 317          | \$ 0          | \$ 0       | \$ 0         | \$ 0      | \$ 84          | \$ 0         | \$ 401    |
| Accounts payable                          | 16              | 421           | 608        | 0            | 1,029     | 65             | 0            | 1,110     |
| Other current liabilities                 | 6,044           | 168           | 335        | (9)          | 494       | 526            | (6,030)      | 1,034     |
| Total Current Liabilities                 | 6,377           | 589           | 943        | (9)          | 1,523     | 675            | (6,030)      | 2,545     |
| Long-Term Debt                            | 2,011           | 1,638         | 1,228      | 0            | 2,866     | 118            | (2,860)      | 2,135     |
| Deferred Income Taxes                     | 0               | 105           | 204        | 0            | 309       | 12             | 0            | 321       |
| Other Liabilities                         | 110             | 148           | 179        | 0            | 327       | 49             | 0            | 486       |
| Redeemable Noncontrolling Interest        | 0               | 0             | 0          | 0            | 0         | 64             | 0            | 64        |
| Total Tyson Shareholders Equity           | 5,166           | 4,367         | 8,204      | (1,607)      | 10,964    | 928            | (11,892)     | 5,166     |
| Noncontrolling Interest                   | 0               | 0             | 0          | 0            | 0         | 35             | 0            | 35        |
| Total Shareholders Equity                 | 5,166           | 4,367         | 8,204      | (1,607)      | 10,964    | 963            | (11,892)     | 5,201     |
| Total Liabilities and Shareholders Equity | \$ 13,664       | \$ 6,847      | \$ 10,758  | \$ (1,616)   | \$ 15,989 | \$ 1,881       | \$ (20,782)  | \$ 10,752 |

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Condensed Consolidating Statement of Cash Flows for the six months ended April 2, 2011

in millions

|                                                  | 2014 Guarantors |               |            |              |          |                |              |        |
|--------------------------------------------------|-----------------|---------------|------------|--------------|----------|----------------|--------------|--------|
|                                                  | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | Total  |
| Cash Provided by (Used for) Operating Activities | \$ 110          | \$ 95         | \$ 59      | \$ 0         | \$ 154   | \$ 10          | \$ (20)      | \$ 254 |
| Cash Flows from Investing Activities:            |                 |               |            |              |          |                |              |        |
| Additions to property, plant and equipment       | (1)             | (61)          | (209)      | 0            | (270)    | (48)           | 0            | (319)  |
| Change in restricted cash                        | 0               | 0             | 0          | 0            | 0        | 0              | 0            | 0      |
| Purchases of marketable securities, net          | 0               | (58)          | (21)       | 0            | (79)     | (1)            | 0            | (80)   |
| Other, net                                       | 23              | 0             | 3          | 0            | 3        | (1)            | 0            | 25     |
| Cash Provided by (Used for) Investing Activities | 22              | (119)         | (227)      | 0            | (346)    | (50)           | 0            | (374)  |
| Cash Flows from Financing Activities:            |                 |               |            |              |          |                |              |        |
| Net change in debt                               | (69)            | (6)           | 0          | 0            | (6)      | 10             | 0            | (65)   |
| Change in restricted cash                        | 0               | 0             | 0          | 0            | 0        | 0              | 0            | 0      |
| Purchase of treasury shares                      | (21)            | 0             | 0          | 0            | 0        | 0              | 0            | (21)   |
| Dividends                                        | (30)            | 0             | 0          | 0            | 0        | (20)           | 20           | (30)   |
| Other, net                                       | 37              | 0             | 0          | 0            | 0        | 8              | 0            | 45     |
| Net change in intercompany balances              | (50)            | 29            | (50)       | 0            | (21)     | 71             | 0            | 0      |
| Cash Provided by (Used for) Financing Activities | (133)           | 23            | (50)       | 0            | (27)     | 69             | 20           | (71)   |
| Effect of Exchange Rate Change on Cash           | 0               | 0             | 0          | 0            | 0        | 7              | 0            | 7      |
| Decrease in Cash and Cash Equivalents            | (1)             | (1)           | (218)      | 0            | (219)    | 36             | 0            | (184)  |
| Cash and Cash Equivalents at Beginning of Year   | 2               | 2             | 731        | 0            | 733      | 243            | 0            | 978    |
| Cash and Cash Equivalents at End of Period       | \$ 1            | \$ 1          | \$ 513     | \$ 0         | \$ 514   | \$ 279         | \$ 0         | \$ 794 |

Condensed Consolidating Statement of Cash Flows for the six months ended April 3, 2010

in millions

|                                                  | 2014 Guarantors |               |            |              |          |                |              |        |
|--------------------------------------------------|-----------------|---------------|------------|--------------|----------|----------------|--------------|--------|
|                                                  | TFI<br>Parent   | TFM<br>Parent | Guarantors | Eliminations | Subtotal | Non-Guarantors | Eliminations | Total  |
| Cash Provided by (Used for) Operating Activities | \$ 234          | \$ 73         | \$ 196     | \$ 0         | \$ 269   | \$ (17)        | \$ 0         | \$ 486 |
| Cash Flows from Investing Activities:            |                 |               |            |              |          |                |              |        |
| Additions to property, plant and equipment       | (2)             | (30)          | (144)      | 0            | (174)    | (88)           | 0            | (264)  |
| Purchases of marketable securities, net          | 0               | 0             | 0          | 0            | 0        | (4)            | 0            | (4)    |
| Other, net                                       | (1)             | 1             | 5          | 0            | 6        | 36             | 0            | 41     |

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|                                                  |       |       |        |      |        |        |      |        |
|--------------------------------------------------|-------|-------|--------|------|--------|--------|------|--------|
| Cash Used for Investing Activities               | (3)   | (29)  | (139)  | 0    | (168)  | (56)   | 0    | (227)  |
| <b>Cash Flows from Financing Activities:</b>     |       |       |        |      |        |        |      |        |
| Net change in debt                               | (404) | (140) | 0      | 0    | (140)  | 4      | 0    | (540)  |
| Change in restricted cash                        | 0     | 0     | 140    | 0    | 140    | 0      | 0    | 140    |
| Purchase of treasury shares                      | (31)  | 0     | 0      | 0    | 0      | 0      | 0    | (31)   |
| Dividends                                        | (30)  | 0     | 0      | 0    | 0      | 0      | 0    | (30)   |
| Other, net                                       | 15    | 0     | 0      | 0    | 0      | 0      | 0    | 15     |
| Net change in intercompany balances              | 219   | 96    | (342)  | 0    | (246)  | 27     | 0    | 0      |
| Cash Provided by (Used for) Financing Activities | (231) | (44)  | (202)  | 0    | (246)  | 31     | 0    | (446)  |
| Effect of Exchange Rate Change on Cash           | 0     | 0     | 0      | 0    | 0      | (5)    | 0    | (5)    |
| Decrease in Cash and Cash Equivalents            | 0     | 0     | (145)  | 0    | (145)  | (47)   | 0    | (192)  |
| Cash and Cash Equivalents at Beginning of Year   | 0     | 0     | 788    | 0    | 788    | 216    | 0    | 1,004  |
| Cash and Cash Equivalents at End of Period       | \$ 0  | \$ 0  | \$ 643 | \$ 0 | \$ 643 | \$ 169 | \$ 0 | \$ 812 |

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** **RESULTS OF OPERATIONS**

#### *Description of the Company*

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

#### *Overview*

**General** As a result of improved internal performance in all segments, strong exports and favorable market conditions in our Pork segment, our operating results remained strong in the second quarter of fiscal 2011.

We continue to focus on maximizing our margins through margin management and operational efficiency improvements. Margin management improvements occurred in the areas of mix, export sales, price optimization and value-added products initiatives. The operational efficiencies occurred in the areas of yields, cost reduction, labor management and logistics cost optimization.

**Market environment** Despite higher raw material costs resulting from tight protein supplies, demand in the Beef and Pork segments remained strong, which created a favorable pricing environment. While our Chicken segment remained profitable, we were challenged by high grain prices and excess supplies, which made it difficult to pass along the increased grain costs. We cut production in our Chicken segment in the second quarter of fiscal 2011 to balance our inventory supply with customer demand. Even with our production volume cutbacks, our Chicken segment sales volume grew as a result of significant reductions in our inventory levels.

Our total operating margins were 3.8% in the second quarter of fiscal 2011. The following is a summary of operating margins by segment:

Chicken 1.4%

Beef 2.8%

Pork 10.5%

Prepared Foods 4.0%

**Debt and Liquidity** During the second quarter of fiscal 2011, we received upgrades from Standard & Poor's (S&P), Moody's Investor Services, Inc. (Moody's) and Fitch Ratings (Fitch). Our corporate rating is now investment grade with S&P and Fitch, and one notch below investment grade with Moody's. In addition, we amended and extended our credit facility during the second quarter, which lowered the cost of the facility and introduced a collateral release provision. At April 2, 2011, we had approximately \$1.6 billion of

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liquidity, which includes availability under our credit facility and \$794 million of cash and cash equivalents.

| in millions, except per share data                 | Three Months Ended |                  | Six Months Ended |                  |
|----------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                    | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
| Net income attributable to Tyson                   | \$ 159             | \$ 159           | \$ 457           | \$ 319           |
| Net income attributable to Tyson per diluted share | 0.42               | 0.42             | 1.20             | 0.84             |

**Six months of fiscal 2011** Net income attributable to Tyson included the following item:

\$11 million gain related to a sale of interests in an equity method investment.

**Second quarter and six months of fiscal 2010** Net income attributable to Tyson included the following item:

\$24 million charge related to losses on notes repurchased during the quarter.

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## **Table of Contents**

### *Fiscal 2011 Outlook*

In fiscal 2011, overall domestic protein (chicken, beef, pork and turkey) production is expected to slightly increase. Because exports are likely to grow as well, we forecast total domestic availability of protein to be down slightly compared to fiscal 2010, which should continue to support pricing. The following is a summary of the fiscal 2011 outlook for each of our segments, as well as an outlook on sales, capital expenditures, net interest expense and debt:

**Chicken** Based on USDA data, we expect industry production will increase from fiscal 2010 levels. In addition, current futures prices indicate higher grain costs in fiscal 2011 compared to fiscal 2010 of nearly \$500 million. We expect to offset a portion of the increased grain costs and the impact of additional supplies with operational, pricing and mix improvements.

Because of these factors, we expect our operating margins will be below our normalized range; however, we continue to expect to remain profitable during the remainder of fiscal 2011. Additionally, a significant portion of our increased capital expenditures focus on production and labor efficiencies, yield improvements and sales mix flexibility. These improvements, which began in late fiscal 2010 and are scheduled to continue throughout fiscal 2011, are expected to result in \$200 million of operational improvements in fiscal 2011.

**Beef** We expect to see a gradual reduction in fed cattle supplies of 1-2% for the remainder of fiscal 2011 as compared to fiscal 2010. We do not expect a significant change in the fundamentals of our Beef business for the balance of fiscal 2011. We expect adequate supplies in the regions we operate our plants and for beef exports to remain strong in fiscal 2011.

**Pork** We expect hog supplies in fiscal 2011 to be comparable to fiscal 2010 and to be adequate in the regions in which we operate. We expect pork exports to remain strong in fiscal 2011. While we expect results should remain above our normalized range for the balance of the fiscal year, we do not expect operating margins for the remainder of fiscal 2011 to be at the level of the first half of our fiscal year.

**Prepared Foods** We expect operational improvements and increased pricing to offset the likely increase in raw material costs in fiscal 2011. Because many of our sales contracts are formula based or shorter-term in nature, we are typically able to offset rising input costs through increased pricing. However, there is a lag time for price increases to take effect.

**Sales** We expect fiscal 2011 sales to exceed \$32 billion mostly due to price increases associated with the rising raw material costs.

**Capital Expenditures** We expect fiscal 2011 capital expenditures to be approximately \$700 million.

**Net Interest Expense** We expect fiscal 2011 net interest expense will be approximately \$230 million, down approximately \$100 million compared to fiscal 2010 and down \$15 million from our previous projection because of the amendment of our revolving credit facility and our recent ratings upgrades.

**Debt** We will continue to use our available cash to repurchase notes when available at attractive rates. The only significant maturities of debt coming due over the next three fiscal years (2011-2013) are our 8.25% Notes due October 1, 2011, of which the balance was \$314 million at April 2, 2011. We plan to retire these notes with current cash on hand and/or cash flows from operations.



**Table of Contents***Summary of Results Continuing Operations***Sales**

| in millions                   | Three Months Ended |                  | Six Months Ended |                  |
|-------------------------------|--------------------|------------------|------------------|------------------|
|                               | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
| Sales                         | \$ 8,000           | \$ 6,916         | \$ 15,615        | \$ 13,551        |
| Change in sales volume        | 3.0%               |                  | 3.7%             |                  |
| Change in average sales price | 12.3%              |                  | 11.1%            |                  |
| Sales growth                  | 15.7%              |                  | 15.2%            |                  |

*Second quarter Fiscal 2011 vs Fiscal 2010*

**Average Sales Price** Sales were positively impacted by higher average sales prices, which accounted for an increase of approximately \$898 million. All segments had an increase in average sales price, with the majority of the increase in the Beef and Pork segments. The increase was largely due to higher live and raw material costs.

**Sales Volume** Sales were also positively impacted by higher sales volume, which accounted for an increase of approximately \$186 million. The majority of the increase is due to the Chicken and Pork segments.

*Six months Fiscal 2011 vs Fiscal 2010*

**Average Sales Price** Sales were positively impacted by higher average sales prices, which accounted for an increase of approximately \$1.6 billion. All segments had an increase in average sales price, with the majority of the increase in the Beef and Pork segments. The increase was largely due to higher live and raw material costs.

**Sales Volume** Sales were also positively impacted by higher sales volume, which accounted for an increase of approximately \$459 million. The increase in sales volume was largely due to the Chicken and Pork segments.

**Cost of Sales**

| in millions                            | Three Months Ended |                  | Six Months Ended |                  |
|----------------------------------------|--------------------|------------------|------------------|------------------|
|                                        | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
| Cost of sales                          | \$ 7,467           | \$ 6,352         | \$ 14,338        | \$ 12,458        |
| Gross profit                           | \$ 533             | \$ 564           | \$ 1,277         | \$ 1,093         |
| Cost of sales as a percentage of sales | 93.3%              | 91.8%            | 91.8%            | 91.9%            |

*Second quarter Fiscal 2011 vs Fiscal 2010*

Cost of sales increased \$1.1 billion. Higher cost per pound increased cost of sales \$940 million, while higher sales volume increased cost of sales \$175 million.

Increase in live cattle and hog costs of approximately \$593 million.

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Increase in grain costs in the Chicken segment of approximately \$82 million.

Increase in raw material costs in our Prepared Foods segment of approximately \$59 million.

Increase due to net losses of \$69 million in the second quarter of fiscal 2011, as compared to net losses of \$40 million in the second quarter of fiscal 2010, from our commodity risk management activities related to forward futures contracts for live cattle and hogs, and excludes the impact from related physical purchase transactions which impact current and future period operating results.

Decrease due to net gains of \$23 million in the second quarter of fiscal 2011, from our commodity risk management activities related to grain and energy purchases, and excludes the impact from related physical purchase transactions which impact current and future period operating results.

*Six months Fiscal 2011 vs Fiscal 2010*

Cost of sales increased \$1.9 billion. Higher cost per pound increased cost of sales \$1.5 billion, while higher sales volume increased cost of sales \$426 million.

Increase in live cattle and hog costs of approximately \$1.1 billion.

Increase in raw material costs in our Prepared Foods segment of approximately \$159 million.

Increase in grain costs in the Chicken segment of approximately \$66 million.

Increase due to net losses of \$79 million in the six months of fiscal 2011, as compared to net losses of \$49 million in the six months of fiscal 2010, from our commodity risk management activities related to forward futures contracts for live cattle and hogs, and excludes the impact from related physical purchase transactions which impact current and future period operating results.

Decrease due to net gains of \$74 million in the six months of fiscal 2011, as compared to net gains of \$1 million in the six months of fiscal 2010, from our commodity risk management activities related to grain and energy purchases, and excludes the impact from related physical purchase transactions which impact current and future period operating results.

**Table of Contents*****Selling, General and Administrative***

| in millions                                 | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------|--------------------|------------------|------------------|------------------|
|                                             | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
| Selling, general and administrative expense | \$ 230             | \$ 220           | \$ 476           | \$ 435           |
| As a percentage of sales                    | 2.9%               | 3.2%             | 3.0%             | 3.2%             |

*Second quarter Fiscal 2011 vs Fiscal 2010*

Increase of \$7 million related to incentive and salary based compensation.

Increase of \$6 million related to advertising and sales promotions.

*Six months Fiscal 2011 vs Fiscal 2010*

Increase of \$33 million related to incentive and salary based compensation.

Increase of \$6 million related to advertising and sales promotions.

***Interest Expense***

| in millions                 | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------------|--------------------|------------------|------------------|------------------|
|                             | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
| Cash interest expense       | \$ 48              | \$ 64            | \$ 99            | \$ 136           |
| Losses on notes repurchased | 3                  | 24               | 6                | 25               |
| Non-cash interest expense   | 12                 | 12               | 24               | 19               |
| Total Interest Expense      | \$ 63              | \$ 100           | \$ 129           | \$ 180           |

*Second quarter Fiscal 2011 vs Fiscal 2010*

Cash interest expense includes interest expense related to the coupon rates for senior notes and commitment/letter of credit fees incurred on our revolving credit facilities. The decrease is due primarily to lower average weekly indebtedness of approximately 18%.

Losses on notes repurchased during the second quarter fiscal 2010 included the amount paid exceeding the face value, which primarily included the repurchases of the 2011 Notes and the 6.85% Notes due April 2016 (2016 Notes).

Non-cash interest expense primarily includes interest related to the amortization of debt issuance costs and discounts/premiums on note issuances. This includes debt issuance costs incurred on our revolving credit facility, the 10.5% Senior Notes due 2014 (2014 Notes), as well as the accretion of the debt discount on the 3.25% Convertible Senior Notes due 2013 (2013 Notes) and 2014 Notes.

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Six months Fiscal 2011 vs Fiscal 2010

Cash interest expense includes interest expense related to the coupon rates for senior notes and commitment/letter of credit fees incurred on our revolving credit facilities. The decrease is due primarily to lower average weekly indebtedness of approximately 22%.

Losses on notes repurchased during the six months ended April 3, 2010, included the amount paid exceeding the face value, which primarily included the repurchases of the 2011 Notes and the 2016 Notes.

Non-cash interest expense primarily includes interest related to the amortization of debt issuance costs and discounts/premiums on note issuances. This includes debt issuance costs incurred on our revolving credit facility, the 2014 Notes, as well as the accretion of the debt discount on the 2013 Notes and 2014 Notes.

*Other (Income) Expense, net*

| in millions | Three Months Ended |                  | Six Months Ended |                  |
|-------------|--------------------|------------------|------------------|------------------|
|             | April 2,<br>2011   | April 3,<br>2010 | April 2,<br>2011 | April 3,<br>2010 |
|             | \$ 2               | \$ (1)           | \$ (8)           | \$ 0             |

*Six months of fiscal 2011:*

Includes \$11 million gain related to a sale of interests in an equity method investment.

**Table of Contents*****Effective Tax Rate***

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> | <b>April 2,<br/>2011</b> | <b>April 3,<br/>2010</b> |
|  | 34.9%                     | 37.1%                    | 34.3%                    | 35.0%                    |

**Second quarter of fiscal 2011** The effective tax rate was impacted by:

state income taxes;

losses in foreign jurisdictions and related valuation allowances;

the domestic production deduction;

general business credits; and

adjustments to uncertain tax positions due to tax audit resolutions.

**Six months of fiscal 2011** The effective tax rate was impacted by:

state income taxes;

losses in foreign jurisdictions and related valuation allowances;

the domestic production deduction;

general business credits;

adjustments to uncertain tax positions due to tax audit resolutions; and

the reduction of a valuation allowance related to an equity method investment.

**Second quarter of fiscal 2010** The effective tax rate was impacted by:

state income taxes;

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losses in foreign jurisdictions and related valuation allowances;

the domestic production deduction; and

general business credits.

**Six months of fiscal 2010** The effective tax rate was impacted by:

state income taxes;

losses in foreign jurisdictions and related valuation allowances;

the domestic production deduction;

general business credits; and

adjustments to uncertain tax positions due to tax audit resolutions and statute expirations.

## Segment Results

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

| in millions        | Sales                                  |                  |                                      |                  |
|--------------------|----------------------------------------|------------------|--------------------------------------|------------------|
|                    | Three Months Ended<br>April 2,<br>2011 | April 3,<br>2010 | Six Months Ended<br>April 2,<br>2011 | April 3,<br>2010 |
| Chicken            | \$ 2,739                               | \$ 2,491         | \$ 5,358                             | \$ 4,916         |
| Beef               | 3,333                                  | 2,804            | 6,518                                | 5,521            |
| Pork               | 1,384                                  | 1,097            | 2,622                                | 2,044            |
| Prepared Foods     | 778                                    | 734              | 1,584                                | 1,447            |
| Other              | 25                                     | 0                | 33                                   | 0                |
| Intersegment Sales | (259)                                  | (210)            | (500)                                | (377)            |
| Total              | \$ 8,000                               | \$ 6,916         | \$ 15,615                            | \$ 13,551        |

| in millions    | Operating Income                       |                  |                                      |                  |
|----------------|----------------------------------------|------------------|--------------------------------------|------------------|
|                | Three Months Ended<br>April 2,<br>2011 | April 3,<br>2010 | Six Months Ended<br>April 2,<br>2011 | April 3,<br>2010 |
| Chicken        | \$ 37                                  | \$ 114           | \$ 218                               | \$ 192           |
| Beef           | 94                                     | 126              | 210                                  | 245              |
| Pork           | 146                                    | 69               | 323                                  | 131              |
| Prepared Foods | 31                                     | 37               | 59                                   | 92               |
| Other          | (5)                                    | (2)              | (9)                                  | (2)              |
| Total          | \$ 303                                 | \$ 344           | \$ 801                               | \$ 658           |



**Table of Contents*****Chicken Segment Results***

| in millions                | Three Months Ended |                  |         | Six Months Ended |                  |        |
|----------------------------|--------------------|------------------|---------|------------------|------------------|--------|
|                            | April 2,<br>2011   | April 3,<br>2010 | Change  | April 2,<br>2011 | April 3,<br>2010 | Change |
| Sales                      | \$ 2,739           | \$ 2,491         | \$ 248  | \$ 5,358         | \$ 4,916         | \$ 442 |
| Sales Volume Change        |                    |                  | 6.0%    |                  |                  | 7.2%   |
| Average Sales Price Change |                    |                  | 3.7%    |                  |                  | 1.7%   |
| Operating Income           | \$ 37              | \$ 114           | \$ (77) | \$ 218           | \$ 192           | \$ 26  |
| Operating Margin           | 1.4%               | 4.6%             |         | 4.1%             | 3.9%             |        |

*Second quarter and six months Fiscal 2011 vs Fiscal 2010*

## Sales and Operating Income

**Sales Volume** We cut production in the second quarter of fiscal 2011 to balance our inventory supply with customer demand. Even with our production volume cutbacks, sales volume grew as a result of significant reductions in our inventory levels.

**Operational Improvements** Operating results were positively impacted by an increase in sales volume and operational improvements, which included: yield and mix; additional processing flexibility; and reduced interplant product movement. However, during fiscal 2011, we were negatively impacted by an increase in other feed ingredient costs, freight, and weather-related expenses.

**Derivative Activities** Operating results included the following amounts for commodity risk management activities related to grain and energy purchases. These amounts exclude the impact from related physical purchase transactions, which impact current and future period operating results.

| Income - in millions             | Qtr   | YTD   |
|----------------------------------|-------|-------|
| 2011                             | \$ 23 | \$ 74 |
| 2010                             | 0     | 1     |
| Improvement in operating results | \$ 23 | \$ 73 |

**Grain Costs** As compared to the same periods of fiscal 2010, operating results were negatively impacted in the second quarter and six months of fiscal 2011 by an increase in grain costs of \$82 million and \$66 million, respectively, which lowered operating margins by 3.0% and 1.2%.

***Beef Segment Results***

| in millions                | Three Months Ended |                  |        | Six Months Ended |                  |        |
|----------------------------|--------------------|------------------|--------|------------------|------------------|--------|
|                            | April 2,<br>2011   | April 3,<br>2010 | Change | April 2,<br>2011 | April 3,<br>2010 | Change |
| Sales                      | \$ 3,333           | \$ 2,804         | \$ 529 | \$ 6,518         | \$ 5,521         | \$ 997 |
| Sales Volume Change        |                    |                  | (0.6)% |                  |                  | 0.0%   |
| Average Sales Price Change |                    |                  | 19.6%  |                  |                  | 18.0%  |

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|                                                                 |       |        |         |        |        |         |
|-----------------------------------------------------------------|-------|--------|---------|--------|--------|---------|
| Operating Income                                                | \$ 94 | \$ 126 | \$ (32) | \$ 210 | \$ 245 | \$ (35) |
| Operating Margin                                                | 2.8%  | 4.5%   |         | 3.2%   | 4.4%   |         |
| <i>Second quarter and six months Fiscal 2011 vs Fiscal 2010</i> |       |        |         |        |        |         |

### Sales and Operating Income

We have sustained our operating income by maximizing our revenues relative to the rising live cattle markets, partially attributable to strong export sales. This was offset by an increase in operating costs.

Derivative Activities Operating results included the following amounts for commodity risk management activities related to forward futures contracts for live cattle. These amounts exclude the impact from related physical sale and purchase transactions, which impact current and future period operating results.

| Income/(Loss) - in millions  | Qtr     | YTD     |
|------------------------------|---------|---------|
| 2011                         | \$ (30) | \$ (39) |
| 2010                         | (4)     | 2       |
| Decline in operating results | \$ (26) | \$ (41) |

**Table of Contents****Pork Segment Results**

| in millions                | Three Months Ended |                  |        | Six Months Ended |                  |        |
|----------------------------|--------------------|------------------|--------|------------------|------------------|--------|
|                            | April 2,<br>2011   | April 3,<br>2010 | Change | April 2,<br>2011 | April 3,<br>2010 | Change |
| Sales                      | \$ 1,384           | \$ 1,097         | \$ 287 | \$ 2,622         | \$ 2,044         | \$ 578 |
| Sales Volume Change        |                    |                  | 6.6%   |                  |                  | 6.2%   |
| Average Sales Price Change |                    |                  | 18.4%  |                  |                  | 20.8%  |
| Operating Income           | \$ 146             | \$ 69            | \$ 77  | \$ 323           | \$ 131           | \$ 192 |
| Operating Margin           | 10.5%              | 6.3%             |        | 12.3%            | 6.4%             |        |

Second quarter and six months Fiscal 2011 vs Fiscal 2010

## Sales and Operating Income

We increased our operating margins by maximizing our revenues relative to the live hog markets, partially attributable to strong export sales and operational and mix performance.

Derivative Activities Operating results included the following amounts for commodity risk management activities related to forward futures contracts for live hogs. These amounts exclude the impact from related physical sale and purchase transactions, which impact current and future period operating results.

| Income/(Loss) - in millions      | Qtr     | YTD    |
|----------------------------------|---------|--------|
| 2011                             | \$ (22) | \$ (9) |
| 2010                             | (22)    | (29)   |
| Improvement in operating results | \$ 0    | \$ 20  |

**Prepared Foods Segment Results**

| in millions                | Three Months Ended |                  |        | Six Months Ended |                  |         |
|----------------------------|--------------------|------------------|--------|------------------|------------------|---------|
|                            | April 2,<br>2011   | April 3,<br>2010 | Change | April 2,<br>2011 | April 3,<br>2010 | Change  |
| Sales                      | \$ 778             | \$ 734           | \$ 44  | \$ 1,584         | \$ 1,447         | \$ 137  |
| Sales Volume Change        |                    |                  | (4.6)% |                  |                  | (2.2)%  |
| Average Sales Price Change |                    |                  | 11.1%  |                  |                  | 11.9%   |
| Operating Income           | \$ 31              | \$ 37            | \$ (6) | \$ 59            | \$ 92            | \$ (33) |
| Operating Margin           | 4.0%               | 5.0%             |        | 3.7%             | 6.4%             |         |

Second quarter and six months Fiscal 2011 vs Fiscal 2010

Operating margins were positively impacted by an increase in our average sales prices, which were partially offset by the increase in raw material costs. In addition, we also had an increase in selling, general and administrative expenses. In the first six months of fiscal 2010, we received \$8 million in insurance proceeds related to the flood damage at our Jefferson, Wisconsin, plant.



**Table of Contents*****LIQUIDITY AND CAPITAL RESOURCES***

Our cash needs for working capital, capital expenditures, growth opportunities and the repurchase/redemption of our 2011 Notes are expected to be met with current cash on hand, cash flows provided by operating activities, or short-term borrowings. Based on our current expectations, we believe our liquidity and capital resources will be sufficient to operate our business. However, we may take advantage of opportunities to generate additional liquidity or refinance existing debt through capital market transactions. The amount, nature and timing of any capital market transactions will depend on: our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

***Cash Flows from Operating Activities***

| in millions                               | Six Months Ended |                  |
|-------------------------------------------|------------------|------------------|
|                                           | April 2,<br>2011 | April 3,<br>2010 |
| Net income                                | \$ 450           | \$ 315           |
| Non-cash items in net income:             |                  |                  |
| Depreciation and amortization             | 256              | 247              |
| Deferred income taxes                     | 60               | 1                |
| Other, net                                | 40               | 47               |
| Changes in working capital                | (552)            | (124)            |
| Net cash provided by operating activities | \$ 254           | \$ 486           |

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

**April 2, 2011** Decreased primarily due to higher inventory and accounts receivable balances and a decrease in accrued salaries, wages and benefits. Inventory and accounts receivable balances are higher largely due to increased raw material costs and the resulting higher sales prices.

**April 3, 2010** Decreased primarily due to higher inventory and accounts receivable balances, a decrease in accounts payable and income tax payables, partially offset by an increase in accrued salaries, wages and benefits.

***Cash Flows from Investing Activities***

| in millions                                | Six Months Ended |                  |
|--------------------------------------------|------------------|------------------|
|                                            | April 2,<br>2011 | April 3,<br>2010 |
| Additions to property, plant and equipment | \$ (319)         | \$ (264)         |
| Purchases of marketable securities, net    | (80)             | (4)              |
| Other, net                                 | 25               | 41               |
| Net cash used for investing activities     | \$ (374)         | \$ (227)         |

Additions to property, plant and equipment include acquiring new equipment, upgrading our facilities to maintain competitive standing and positioning us for future opportunities.

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Capital spending for fiscal 2011 is expected to be approximately \$700 million, and includes spending for production and labor efficiencies, yield improvements and sales channel flexibility, as well as expansion of our foreign operations.

Purchase of marketable securities includes \$79 million related to the funding of deferred compensation plans.

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### Cash Flows from Financing Activities

| in millions                                                   | Six Months Ended |               |
|---------------------------------------------------------------|------------------|---------------|
|                                                               | April 2, 2011    | April 3, 2010 |
| Payments on debt                                              | \$ (65)          | \$ (555)      |
| Net proceeds from borrowings                                  | 0                | 15            |
| Change in restricted cash to be used for financing activities | 0                | 140           |
| Purchases of treasury shares                                  | (21)             | (31)          |
| Dividends                                                     | (30)             | (30)          |
| Other, net                                                    | 45               | 15            |
| Net cash used for financing activities                        | \$ (71)          | \$ (446)      |

Payments on debt for the six months ended April 2, 2011, included \$58 million of 2016 Notes.

Payments on debt for the six months ended April 3, 2010, included:

\$287 million of 2011 Notes;

\$140 million of 7.95% Notes due February 2010 (using the restricted cash held in a blocked cash collateral account for the repurchase of these notes);

\$57 million of 2016 Notes;

\$34 million of 7.0% Notes due May 2018; and

\$25 million related to the losses on notes repurchased during the period.

### Liquidity

| in millions               | Commitments<br>Expiration Date | Facility<br>Amount | Outstanding<br>Letters of<br>Credit<br>(no draw<br>downs) | Amount<br>Borrowed | Amount<br>Available |
|---------------------------|--------------------------------|--------------------|-----------------------------------------------------------|--------------------|---------------------|
|                           |                                |                    |                                                           |                    |                     |
| Cash and cash equivalents |                                |                    |                                                           |                    | \$ 794              |
| Revolving credit facility | February 2016                  | \$ 1,000           | \$ 158                                                    | \$ 0               | \$ 842              |
| Total liquidity           |                                |                    |                                                           |                    | \$ 1,636            |

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The revolving credit facility supports our short-term funding needs and letters of credit. Letters of credit are issued primarily in support of workers' compensation insurance programs, derivative activities and Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds.

Our 2013 Notes may be converted early during any fiscal quarter in the event our Class A stock trades at or above \$21.96 for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. In this event, the note holders may require us to pay outstanding principal in cash, which totaled \$458 million at April 2, 2011. Any conversion premium would be paid in shares of Class A stock. The conditions for early conversion were not met in our second fiscal quarter of fiscal 2011, and thus, the notes may not be converted in our third quarter of fiscal 2011. Should the conditions for early conversion be satisfied in future quarters, and the holders exercised their early conversion option, we would use current cash on hand and cash flow from operations for principal payments.

At April 2, 2011, we had \$314 million of 2011 Notes outstanding. We plan presently to use current cash on hand and cash flows from operations for payment on the remaining 2011 Notes due on October 1, 2011.

Our current ratio was 1.99 to 1 and 1.81 to 1 at April 2, 2011, and October 2, 2010, respectively.

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### *Credit and Capital Markets*

Credit market conditions deteriorated rapidly during our fourth quarter of fiscal 2008, although they have improved significantly. While not all-inclusive, the following summarizes some of the impacts that credit market conditions can have on our business:

#### ***Credit Facility***

Cash flows from operating activities and current cash on hand are our primary source of liquidity for funding debt service and capital expenditures. We also have a revolving credit facility, with a committed maximum capacity of \$1.0 billion, to provide additional liquidity for working capital needs, letters of credit, and as a source of financing for growth opportunities. As of April 2, 2011, we had outstanding letters of credit totaling \$158 million, none of which were drawn upon, which left \$842 million available for borrowing. Our revolving credit facility is funded by a syndicate of 38 banks, with commitments ranging from \$3 million to \$90 million per bank. The syndicate includes bank holding companies that are required to be adequately capitalized under federal bank regulatory agency requirements. If any of the banks in the syndicate are unable to perform on their commitments to fund the facility, our liquidity could be impaired, which could reduce our ability to fund working capital needs, support letters of credit or finance our growth opportunities.

#### ***Customers/Suppliers***

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

Additionally, we have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier's net tangible assets. Although we believe the aggregate maximum obligation under the program is unlikely to ever be reached, the potential maximum obligation at April 2, 2011, was approximately \$215 million. The total receivables under these programs were \$54 million and \$51 million at April 2, 2011, and October 2, 2010, respectively. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers' assets and personal guarantees. After analyzing residual credit risks and general market conditions, we have recorded an allowance for these programs' estimated uncollectible receivables of \$16 million and \$15 million at April 2, 2011, and October 2, 2010, respectively.

#### ***Investments***

The value of our investments in equity and debt securities, including our marketable debt securities, company-owned life insurance and pension and other postretirement plan assets, are impacted by market volatility. These instruments were recorded at fair value as of April 2, 2011. We did not have a significant change in fair value of these instruments during the second quarter and six months of fiscal 2011.

We currently oversee two domestic and one foreign subsidiary non-contributory qualified defined benefit pension plans. All three pension plans are frozen to new participants and no additional benefits will accrue for participants. Based on our 2010 actuarial valuation, we anticipate contributions of \$5 million to these plans for fiscal 2011. We also have one domestic unfunded defined benefit plan. Based on our 2010 actuarial valuation, we anticipate contributions of \$2 million to this plan in fiscal 2011.

#### ***Financial Instruments***

As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce our exposure to various market risks related to commodity purchases. Similar to the capital markets, the commodities markets have been volatile over the past few years. Due to the volatility of grain and energy prices, we have implemented policies to reduce our earnings volatility associated with mark-to-market derivative activities, including more use of normal physical purchases and normal physical sales which are not required to be marked to market.



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### ***Insurance***

We rely on insurers as a protection against liability claims, property damage and various other risks. Our primary insurers maintain an A.M. Best Financial Strength Rating of A or better.

### ***Credit Ratings***

#### ***2016 Notes***

On August 19, 2010, S&P upgraded the credit rating of these notes from BB to BB+. On September 2, 2010, Moody's upgraded our credit rating from Ba3 to Ba2. These upgrades decreased the interest rate on the 2016 Notes from 7.85% to 7.35%, effective beginning with the six-month interest payment due October 1, 2010.

On February 24, 2011, S&P upgraded the credit rating of these notes from BB+ to BBB-. On March 29, 2011, Moody's upgraded our credit rating from Ba2 to Ba1. These upgrades decreased the interest rate on the 2016 Notes from 7.35% to 6.85%, effective beginning with the six-month interest payment due April 1, 2011.

A further one-notch upgrade by Moody's would decrease the interest rates on the 2016 Notes by 0.25%, while a one-notch downgrade by either ratings agency would increase the interest rates on the 2016 Notes by 0.25%.

### ***Revolving Credit Facility***

S&P's corporate credit rating for Tyson Foods, Inc. is BBB-. Moody's corporate credit rating for Tyson Foods, Inc. is Ba1. If Moody's were to upgrade our credit rating to Baa2 or higher while our S&P credit rating remained at BBB-, or S&P were to upgrade our credit rating to BBB or higher while Moody's upgraded our credit rating to Baa3 or higher, our letter of credit fees would decrease by 0.25% and fees paid on the unused portion of the facility would decrease by 0.075%.

If S&P were to downgrade our corporate credit rating to BB+ or Moody's were to downgrade our corporate credit rating to Ba2, our letter of credit fees would increase by 0.25% and fees paid on the unused portion of the facility would increase by 0.025%.

### ***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. In addition, we are required to maintain minimum interest expense coverage and maximum leverage ratios.

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.

We were in compliance with all debt covenants at April 2, 2011.

## ***RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS***

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

## ***CRITICAL ACCOUNTING ESTIMATES***

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

October 2, 2010.

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

Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of our outlook for fiscal 2011, other future economic circumstances, industry conditions in domestic and international markets, our performance and financial results (e.g., 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 update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may cause actual results and experiences to differ from anticipated results and expectations expressed in such forward-looking statements are the following: (i) the effect of, or changes in, general economic conditions; (ii) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (iii) market conditions for finished products, including competition from other global and domestic food processors, supply and pricing of competing products and alternative proteins and demand for alternative proteins; (iv) successful rationalization of existing facilities and operating efficiencies of the facilities; (v) risks associated with our commodity purchasing activities; (vi) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vii) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an adverse effect on livestock we own, the availability of livestock we purchase, consumer perception of certain protein products or our ability to access certain domestic and foreign markets; (viii) changes in availability and relative costs of labor and contract growers and our ability to maintain good relationships with employees, labor unions, contract growers and independent producers providing us livestock; (ix) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (x) changes in consumer preference and diets and our ability to identify and react to consumer trends; (xi) significant marketing plan changes by large customers or loss of one or more large customers; (xii) adverse results from litigation; (xiii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiv) compliance with and changes to regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws; (xv) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xvi) effectiveness of advertising and marketing programs; and (xvii) those factors listed under Item 1A. Risk Factors included in our Annual Report filed on Form 10-K for the year ended October 2, 2010.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk** **MARKET RISK**

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

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

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**Commodities Risk:** We purchase certain commodities, such as grains and livestock, in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of April 2, 2011, and October 2, 2010, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge derivative financial instruments.

*Effect of 10% change in fair value*

| in millions | April 2,<br>2011 | October 2,<br>2010 |
|-------------|------------------|--------------------|
| Livestock:  |                  |                    |
| Cattle      | \$ 25            | \$ 39              |
| Hogs        | 49               | 42                 |
| Grain       | 8                | 10                 |

**Interest Rate Risk:** At April 2, 2011, we had variable rate debt of \$219 million with a weighted average interest rate of 4.3%. A hypothetical 10% increase in interest rates effective at April 2, 2011, and October 2, 2010, would have a minimal effect on interest expense.

Additionally, changes in interest rates impact the fair value of our fixed-rate debt. At April 2, 2011, we had fixed-rate debt of \$2.3 billion with a weighted average interest rate of 9.1%. 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 \$14 million at April 2, 2011, and \$9 million at October 2, 2010. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

**Foreign Currency Risk:** We have foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates primarily as a result of certain receivable and payable balances. The primary currency exchanges we have exposure to are the Canadian dollar, the Chinese renminbi, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. We periodically enter into foreign exchange forward contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at April 2, 2011, and October 2, 2010, related to the foreign exchange forward contracts would have a \$26 million and \$17 million, respectively, impact on pretax income. In the future, we may enter into more foreign exchange forward contracts as a result of our international growth strategy.

**Concentration of Credit Risk:** Refer to our market risk disclosures set forth in the 2010 Annual Report filed on Form 10-K for a detailed discussion of quantitative and qualitative disclosures about concentration of credit risks, as these risk disclosures have not changed significantly from the 2010 Annual Report.

#### **Item 4. Controls and Procedures**

An evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the 1934 Act)). Based on that evaluation, management, including the CEO and CFO, has concluded that, as of April 2, 2011, our disclosure controls and procedures were effective.

In the second quarter ended April 2, 2011, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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### ***PART II. OTHER INFORMATION***

#### **Item 1. Legal Proceedings**

Refer to the description of certain legal proceedings pending against us under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 10: Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and/or its subsidiaries.

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

Since 2003, nine lawsuits have been brought against us and several other poultry companies by approximately 150 plaintiffs in Washington County, Arkansas Circuit Court (Green v. Tyson Foods, Inc., et al., Bible v. Tyson Foods, Inc., Beal v. Tyson Foods, Inc., et al., McWhorter v. Tyson Foods, Inc., et al., McConnell v. Tyson Foods, Inc., et al., Carroll v. Tyson Foods, Inc., et al., Belew v. Tyson Foods, Inc., et al., Gonzalez v. Tyson Foods, Inc., et al., and Rasco v. Tyson Foods, Inc., et al.) alleging that the land application of poultry litter caused arsenic and pathogenic mold and fungi contamination of the air, soil and water in and around Prairie Grove, Arkansas. In addition to the poultry company defendants, plaintiffs sued Alpharma, the manufacturer of a feed ingredient containing an organic arsenic compound that has been used in the broiler industry. Plaintiffs are seeking recovery for several types of personal injuries, including several forms of cancer. On August 2, 2006, the Court granted summary judgment in favor of Tyson and the other poultry company defendants in the first case to go to trial and denied summary judgment as to Alpharma. The case was tried against Alpharma and the jury returned a verdict in favor of Alpharma. Plaintiffs appealed the summary judgment in favor of the poultry company defendants and the Court stayed the remaining eight lawsuits pending the appeal. On May 8, 2008, the Arkansas Supreme Court reversed the summary judgment in favor of the poultry company defendants. The remanded trial in this case against us and the other poultry company defendants was held, and on May 14, 2009, the jury returned a verdict in favor of the defendants. The plaintiffs appealed this verdict to the Arkansas Supreme Court. On February 17, 2011, the Arkansas Supreme Court affirmed this verdict. The plaintiffs subsequently filed a petition for rehearing which was denied.

In 2010 our Mexican subsidiary, Tyson de Mexico (TdM), provided the National Water Commission (CONAGUA), an agency of the Mexican government's Ministry of the Environment and Natural Resources, with information on TdM's water usage for 2008 and 2009 at certain water wells that are part of TdM's poultry production operations. In February 2011, the regional CONAGUA office informed TdM that it was the regional CONAGUA office's opinion that TdM's permits for water usage from certain wells lapsed between the period of January 1, 2009 through May 5, 2009, and it estimated TdM owed approximately 6.5 million pesos (approximately US \$560,000) for water usage during this period. TdM has had ongoing discussions with the regional CONAGUA office on this matter, and is awaiting the regional office's final determination.

**Other Matters:** We currently have approximately 115,000 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 1A. Risk Factors**

There have been no material changes to the risk factors listed in Part I, Item 1A. Risk Factors in the Annual Report on Form 10-K for the year ended October 2, 2010. These risk factors should be considered carefully with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known or we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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

| <b>Period</b>                  | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per<br/>Share</b> | <b>Total Number of Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum Number of<br/>Shares that May Yet Be<br/>Purchased Under<br/>the Plans<br/>or Programs (1)</b> |
|--------------------------------|-----------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Jan. 2, 2011 to Jan. 29, 2011  | 179,791                                             | \$ 16.79                                        |                                                                                                                 | 22,474,439                                                                                                |
| Jan. 30, 2011 to March 5, 2011 | 362,059                                             | 18.12                                           |                                                                                                                 | 22,474,439                                                                                                |
| March 6, 2011 to April 2, 2011 | 236,028                                             | 19.30                                           |                                                                                                                 | 22,474,439                                                                                                |
| <b>Total</b>                   | <b>777,878(2)</b>                                   | <b>\$ 18.17</b>                                 |                                                                                                                 | <b>22,474,439</b>                                                                                         |

- (1) On February 7, 2003, we announced our board of directors approved a plan to repurchase up to 25 million shares of Class A common stock from time to time in open market or privately negotiated transactions. The plan has no fixed or scheduled termination date.
- (2) We purchased 777,878 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 687,762 shares purchased in open market transactions and 90,116 shares withheld to cover required tax withholdings on the vesting of restricted stock.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Removed and Reserved**

None

**Item 5. Other Information**

None

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### **Item 6. Exhibits**

The following exhibits are filed with this report.

| <b>Exhibit No.</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1               | Calculation of Ratio of Earnings to Fixed Charges                                                                                                                                                                                                                                                                                                                                                  |
| 31.1               | Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                           |
| 31.2               | Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                           |
| 32.1               | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                 |
| 32.2               | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                 |
| 101                | The following financial information from our Quarterly Report on Form 10-Q for the quarter ended April 2, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements. |

### **SIGNATURES**

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

#### **TYSON FOODS, INC.**

Date: May 9, 2011

/s/ DENNIS LEATHERBY

**Dennis Leatherby**

**Executive Vice President and Chief Financial Officer**

Date: May 9, 2011

/s/ CRAIG J. HART

**Craig J. Hart**

**Senior Vice President, Controller and Chief Accounting Officer**