TYSON FOODS INC
Form 10-Q
August 08, 2007

**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 June 30, 2007**

**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)

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| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction<br>of incorporation or organization) | **71-0225165**<br>(I.R.S. Employer Identification No.) |
| **2210 West Oaklawn Drive, Springdale, Arkansas**<br>(Address of principal executive offices) | **72762-6999**<br>(Zip Code) |

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of June 30, 2007.

| Class | Outstanding Shares |
|---|---|
| Class A Common Stock, $0.10 Par Value (Class A stock) | 287,220,776 |
| Class B Common Stock, $0.10 Par Value (Class B stock) | 70,023,488 |

**TYSON FOODS, INC.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**TYSON FOODS, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(In millions, except per share data)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Sales | $ 6,958 | $ 6,383 | $ 20,017 | $ 19,088 |
| Cost of Sales | 6,531 | 6,180 | 18,890 | 18,388 |
| | 427 | 203 | 1,127 | 700 |
| Selling, General and Administrative | 218 | 230 | 613 | 700 |
| Other Charges | - | (2) | 2 | 57 |
| Operating Income (Loss) | 209 | (25) | 512 | (57) |
| Other (Income) Expense: | | | | |
| Interest income | (2) | (11) | (6) | (17) |
| Interest expense | 57 | 74 | 176 | 189 |
| Other, net | (7) | (12) | (12) | (13) |
| | 48 | 51 | 158 | 159 |
| Income (Loss) before Income Taxes | 161 | (76) | 354 | (216) |
| Income Tax Expense (Benefit) | 50 | (24) | 118 | (76) |
| Net Income (Loss) | $ 111 | $ (52) | $ 236 | $ (140) |
| Weighted Average Shares Outstanding: | | | | |
| Class A Basic | 279 | 249 | 271 | 246 |
| Class B Basic | 70 | 96 | 77 | 99 |
| Diluted | 356 | 345 | 355 | 345 |
| Earnings (Loss) Per Share: | | | | |
| Class A Basic | $ 0.32 | $ (0.15) | $ 0.69 | $ (0.41) |
| Class B Basic | $ 0.29 | $ (0.14) | $ 0.62 | $ (0.38) |
| Diluted | $ 0.31 | $ (0.15) | $ 0.66 | $ (0.41) |
| Cash Dividends Per Share: | | | | |
| Class A | $ 0.040 | $ 0.040 | $ 0.120 | $ 0.120 |
| Class B | $ 0.036 | $ 0.036 | $ 0.108 | $ 0.108 |

See accompanying Notes to Consolidated Condensed Financial Statements.

**TYSON FOODS, INC.**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

(In millions, except share and per share data)

| | (Unaudited) June 30, 2007 | September 30, 2006 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 48 | $ 28 |
| Short-term investment | - | 770 |
| Accounts receivable, net | 1,306 | 1,183 |
| Inventories | 2,201 | 2,057 |
| Other current assets | 97 | 149 |
| Total Current Assets | 3,652 | 4,187 |
| Net Property, Plant and Equipment | 3,697 | 3,945 |
| Goodwill | 2,512 | 2,512 |
| Intangible Assets | 128 | 136 |
| Other Assets | 327 | 341 |
| Total Assets | $ 10,316 | $ 11,121 |
| **Liabilities and Shareholders Equity** | | |
| Current Liabilities: | | |
| Current debt | $ 150 | $ 992 |
| Trade accounts payable | 997 | 942 |
| Other current liabilities | 802 | 912 |
| Total Current Liabilities | 1,949 | 2,846 |
| Long-Term Debt | 2,827 | 2,987 |
| Deferred Income Taxes | 405 | 495 |
| Other Liabilities | 452 | 353 |
| Shareholders Equity: | | |
| Common stock ($0.10 par value): | | |
| Class A-authorized 900 million shares: issued 300 million shares at June 30, 2007, and 284 million shares at September 30, 2006 | 30 | 28 |
| Class B-authorized 900 million shares: issued 70 million shares at June 30, 2007, and 86 million shares at September 30, 2006 | 7 | 9 |
| Capital in excess of par value | 1,833 | 1,835 |
| Retained earnings | 2,975 | 2,781 |
| Accumulated other comprehensive income | 37 | 17 |
| | 4,882 | 4,670 |
| Less treasury stock, at cost- 12 million shares at June 30, 2007, and 15 million shares at September 30, 2006 | 199 | 230 |
| Total Shareholders Equity | 4,683 | 4,440 |
| Total Liabilities and Shareholders Equity | $ 10,316 | $ 11,121 |

See accompanying Notes to Consolidated Condensed Financial Statements.

**TYSON FOODS, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

| | Three Months Ended June 30, 2007 | July 1, 2006 | Nine Months Ended June 30, 2007 | July 1, 2006 |
|---|---|---|---|---|
| Cash Flows From Operating Activities: | | | | |
| Net income (loss) | $ 111 | $ (52) | $ 236 | $ (140) |
| Depreciation and amortization | 130 | 130 | 386 | 383 |
| Plant closing-related and other charges, net | (1) | (6) | (8) | 46 |
| Deferred income taxes and other, net | (26) | 10 | 33 | (111) |
| Net changes in working capital | (252) | (139) | (342) | (63) |
| Cash Provided by (Used for) Operating Activities | (38) | (57) | 305 | 115 |
| Cash Flows From Investing Activities: | | | | |
| Additions to property, plant and equipment | (70) | (113) | (164) | (470) |
| Proceeds from sale of property, plant and equipment | 57 | 1 | 65 | 14 |
| Purchases of marketable securities | (38) | (51) | (117) | (169) |
| Proceeds from sale of marketable securities | 40 | 101 | 119 | 180 |
| Proceeds from sale (purchase) of short-term investment | - | - | 770 | (750) |
| Other, net | 2 | 1 | 8 | 11 |
| Cash Provided by (Used for) Investing Activities | (9) | (61) | 681 | (1,184) |
| Cash Flows From Financing Activities: | | | | |
| Net borrowing on revolving credit facilities | 171 | 158 | 78 | 245 |
| Payments on debt | (134) | (32) | (1,084) | (120) |
| Proceeds from notes offering | - | - | - | 992 |
| Purchases of treasury shares | (16) | (10) | (54) | (30) |
| Dividends | (14) | (14) | (42) | (41) |
| Stock options exercised | 27 | 5 | 60 | 20 |
| Increase in negative book cash balances | 33 | - | 80 | 1 |
| Other, net | (7) | 7 | (8) | 11 |
| Cash Provided by (Used for) Financing Activities | 60 | 114 | (970) | 1,078 |
| Effect of Exchange Rate Change on Cash | 1 | 9 | 4 | (5) |
| Increase in Cash and Cash Equivalents | 14 | 5 | 20 | 4 |
| Cash and Cash Equivalents at Beginning of Period | 34 | 39 | 28 | 40 |
| Cash and Cash Equivalents at End of Period | $ 48 | $ 44 | $ 48 | $ 44 |

See accompanying Notes to Consolidated Condensed Financial Statements.

**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. (the Company). 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 management of the Company believes 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 the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006. Preparation of consolidated condensed financial statements requires management 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.

Management believes the accompanying consolidated condensed financial statements contain all adjustments, including normal recurring accruals and adjustments related to plant dispositions and employee termination benefits as disclosed in Note 2, necessary to present fairly its financial position as of June 30, 2007, and the results of operations and cash flows for each of the three and nine months ended June 30, 2007, and July 1, 2006. Results of operations and cash flows for each of the three and nine months ended June 30, 2007, and July 1, 2006, are not necessarily indicative of results to be expected for the full year.

RECLASSIFICATIONS

In fiscal 2007, the Company reclassified $1 million in negative book cash balances for the nine months ended July 1, 2006, from Net changes in working capital reported as Operating Activities to Other, net reported as Financing Activities in the Consolidated Condensed Statements of Cash Flows to conform with the current period presentation.

INVESTMENTS

The Company has investments in marketable debt securities of $107 million and $115 million as of June 30, 2007, and September 30, 2006, respectively, with maturities up to 49 years, classified in Other Assets in the Consolidated Condensed Balance Sheets. The Company has determined its marketable debt securities are available-for-sale investments. These investments are reported at fair value based on quoted market prices as of the balance sheet date, with unrealized gains and losses, net of tax, recorded in other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is recorded in interest income. The cost of securities sold is based on the specific identification method. Realized gains and losses on sale of debt securities and declines in value determined to be other than temporary are recorded on a net basis in other income. Interest and dividends on securities classified as available-for-sale are recorded in interest income.

In the second quarter of fiscal 2006, the Company issued $1.0 billion of 6.60% senior unsecured notes, which will mature on April 1, 2016. The Company s short-term investment at September 30, 2006, included $750 million of proceeds from the issuance and earnings of $20 million on the investment. These funds were on deposit in an interest bearing account with a trustee. In the first quarter of fiscal 2007, the Company used the proceeds for repayment of its outstanding $750 million 7.25% Notes, which were due October 1, 2006, and remaining proceeds were used for general corporate purposes.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006; therefore, the Company expects to adopt FIN 48 at the beginning of fiscal 2008. The Company is in process of evaluating the potential impact of FIN 48.

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

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires companies to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and to recognize changes in funded status in the year in which the changes occur through other comprehensive income. This standard also requires companies to measure the funded status of a plan as of the date of its annual consolidated balance sheet, with limited exceptions. SFAS No. 158 is effective for financial statements issued for fiscal years ending after December 15, 2006; therefore, the Company expects to adopt SFAS No. 158 at the end of fiscal 2007. Based upon information available as of June 30, 2007, the Company expects an increase in assets of $6 million, a decrease in liabilities of $9 million, an increase in deferred income taxes payable of $6 million and an increase of $9 million to accumulated other comprehensive income when SFAS No. 158 is adopted.

In September 2006, the Securities and Exchange Commission staff published Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements in Current Year Financial Statements (SAB 108). SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006; therefore, the Company expects to adopt SAB 108 at the end of fiscal 2007. The Company does not expect the impact of adopting SAB 108 to be material.

**NOTE 2: DISPOSITIONS AND OTHER CHARGES**

In May 2007, the Company announced the completion of the sale of two of its Alabama poultry plants and related support facilities. As part of strategic efforts to reduce the production of commodity chicken, the Company sold its processing plants in Ashland and Gadsden, which also included a nearby feed mill and two hatcheries. These facilities employed approximately 1,200 employees, of which approximately 800 were hired by the acquiring company, while the remaining employees were offered the opportunity to transfer to other Tyson operations in Alabama. The Company recorded a gain of $10 million on the sale in the third quarter of fiscal 2007. The gain was recorded in the Chicken segment s Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Cost of Sales.

In July 2006, the Company announced its decision to implement a $200 million Cost Management Initiative as part of a strategy to return to profitability. The cost reductions include staffing costs, consulting and professional fees, sales and marketing costs and

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other expenses. In the fourth quarter of fiscal 2006, the Company recorded charges of approximately $9 million for employee termination benefits resulting from the termination of approximately 400 employees. Of these charges, $4 million, $3 million, $1 million and $1 million, respectively, were included in the Chicken, Beef, Pork and Prepared Foods segments Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges in the period ending September 30, 2006. In the first quarter of fiscal 2007, the Company recorded an additional $1 million for employee termination benefits. Of these charges, $0.5 million was included in each of the Chicken and Beef segments Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges. As of June 30, 2007, approximately $9 million of employee termination benefits had been paid. Employee termination benefits are expected to be fully paid through September 2007. No material adjustments to the accrual are anticipated.

In February 2006, the Company announced its decision to close its Norfolk, Nebraska, beef processing plant and its West Point, Nebraska, beef slaughter plant. These facilities closed in February 2006. Production from these facilities was shifted primarily to the Company s beef complex in Dakota City, Nebraska. Combined, these two facilities employed approximately 1,665 employees. Plants and related property are currently offered for sale. In the second quarter of fiscal 2006, the Company recorded charges of $36 million for estimated impairment charges and $9 million of other closing costs. Additionally, in the third and fourth quarters of fiscal 2006, the Company recorded additional charges of $2 million related to estimated impairment charges. Other closing costs include $5 million for employee termination benefits and $4 million in other plant closing related liabilities. These amounts were reflected in the Beef segment s Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges. The Company has fully paid its estimated employee termination benefits and other plant closing related liabilities. No material adjustments to the accrual are anticipated.

In January 2006, the Company announced its decision to close two of its processed meats facilities in northeast Iowa. The Independence and Oelwein plants, which produced chopped ham and sliced luncheon meats, closed in March 2006. Combined, these two facilities employed approximately 400 employees. Equipment from these facilities was removed and either sold or used at other Tyson locations, while the plants and related property are currently offered for sale. In the second quarter of fiscal 2006, the Company recorded charges of $12 million for estimated impairment charges and $2 million for employee termination benefits. In the third quarter of fiscal 2006, the Company reversed approximately $1 million related to employee termination benefits. These amounts were reflected in the Prepared Foods segment s Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges. The Company has fully paid its estimated employee termination benefits. No material adjustments to the accrual are anticipated.

**NOTE 3: FINANCIAL INSTRUMENTS**

The Company purchases certain commodities, such as grains, livestock and natural gas, in the course of normal operations. As part of the Company s commodity risk management activities, the Company uses derivative financial instruments, primarily futures and options, to reduce its exposure to various market risks related to these purchases. Contract terms of a financial instrument qualifying as 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 the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is accounted for as a hedge, changes in the fair value of the instrument will be offset either against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument s change in fair value will be immediately recognized in earnings as a component of cost of sales.

The Company had derivative related balances of $9 million and $11 million recorded in other current assets at June 30, 2007, and September 30, 2006, respectively, and $35 million and $23 million in other current liabilities at June 30, 2007, and September 30, 2006, respectively.

**Cash flow hedges:** The Company uses derivatives to moderate the financial and commodity market risks of its business operations. Derivative products, such as futures and options, are designated to be a hedge against changes in the amount of future cash flows related to commodities procurement.

The effective portion of the cumulative gain or loss on the derivative instrument is reported as a component of Accumulated Other Comprehensive Income in Shareholders Equity and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (for grain commodity hedges, when the chickens that consumed the hedged grain are sold). The remaining cumulative gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in earnings during the period of change. Ineffectiveness related to the Company s cash flow hedges was not significant during the three and nine months ended June 30, 2007, and July 1, 2006.

Derivative products related to grain procurement that meet the criteria for hedge accounting, are considered cash flow hedges, as they hedge against changes in the amount of future cash flows related to commodities procurement. The Company does not purchase derivative products related to grain procurement in excess of its physical grain consumption requirements. There were $4 million of net after tax losses, recorded in accumulated other comprehensive income at June 30, 2007, related to cash flow hedges. These losses will be recognized within the next 12 months. Of these losses, the portion resulting from the Company s open hedge positions was an after tax loss of $7 million as of June 30, 2007. The Company generally does not hedge cash flows related to commodities beyond 12 months.

**Fair value hedges:** The Company designates certain futures contracts as fair value hedges of firm commitments to purchase market hogs for slaughter and natural gas for the operation of its plants. From time to time, the Company also enters into foreign currency forward contracts to hedge changes in the fair value of receivables and purchase commitments arising from changes in the exchange rates of foreign currencies; however, the fair value of the foreign exchange contracts was not significant as of June 30, 2007. The changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability attributable to the hedged risk (including gains or losses on firm commitments), are recorded in current period earnings. Ineffectiveness results when the change in the fair value of the hedge instrument differs from the change in fair value of the hedged item. Ineffectiveness related to the Company s fair value hedges was not significant during the three and nine months ended June 30, 2007, and July 1, 2006.

During fiscal 2006, the Company discontinued the use of hedge accounting for certain financial instruments in place to hedge forward cattle purchases. Hedge accounting was discontinued to provide a natural offset to the gains and losses resulting from the Company s derivatives tied to its forward fixed price sales of boxed beef, as this activity does not qualify for hedge accounting.

**Undesignated positions:** The Company holds positions as part of its risk management activities, primarily futures and options for grains, livestock and natural gas, for which it does not apply hedge accounting, but instead marks these positions to fair value through earnings at each reporting date. Changes in market value of derivatives used in the Company s risk management activities surrounding inventories on hand or anticipated purchases of inventories or supplies are recorded in cost of sales. Changes in market value of derivatives used in the Company s risk management activities surrounding forward sales contracts are recorded in sales. The Company generally does not enter into undesignated positions beyond 18 months. The Company recognized pretax net losses in cost of sales of approximately $9 million and pretax net gains of $58 million for the three and nine months ended June 30, 2007, respectively, and for the three and nine months ended July 1, 2006, the Company recognized pretax net gains of $3 million and $6 million, respectively, related to grain positions for which it did not apply hedge accounting.

The Company enters into certain forward sales of boxed beef and boxed pork and forward purchases of cattle at fixed prices. The fixed price sales contracts lock in the proceeds from a sale in the future and the fixed cattle purchases lock in the cost. However, the cost of the livestock and the related boxed beef and pork market prices at the time of the sale or purchase could vary from this fixed price. In order to mitigate a portion of this risk, as fixed forward sales of boxed beef and pork and forward purchases of cattle are entered into, the Company also enters into the appropriate number of livestock futures positions. 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 the Company s fixed prices being above or below the market price is only realized at the time of sale or purchase. In connection with these livestock futures, the Company recorded realized and unrealized net gains of $24 million and $14 million for the three and nine months ended June 30, 2007, respectively, which included an unrealized pretax loss on open mark-to-market futures positions of approximately $7 million as of June 30, 2007. Realized and unrealized net losses recorded in the three and nine months ended July 1, 2006, related to livestock futures positions were $14 million and $28 million, respectively.

**NOTE 4: INVENTORIES**

Processed products, livestock (excluding breeders) and supplies and other are valued at the lower of cost or market. Livestock includes live cattle, chicken and swine. 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. Live chicken consists of broilers and breeders. Breeders are stated at cost less amortization. The costs associated with breeders, including breeder chicks, feed and medicine, are accumulated up to the production stage and amortized to broiler inventory over the productive life of the flock using a standard unit of production. Total inventory consists of the following (in millions):

| | June 30, 2007 | September 30, 2006 |
|---|---|---|
| Processed products | $ 1,297 | $ 1,192 |
| Livestock | 596 | 571 |
| Supplies and other | 308 | 294 |
| Total inventory | $ 2,201 | $ 2,057 |

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

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

| | June 30, 2007 | September 30, 2006 |
|---|---|---|
| Land | $ 109 | $ 114 |
| Buildings and leasehold improvements | 2,470 | 2,453 |
| Machinery and equipment | 4,312 | 4,270 |
| Land improvements and other | 204 | 202 |
| Buildings and equipment under construction | 240 | 279 |
| | 7,335 | 7,318 |
| Less accumulated depreciation | 3,638 | 3,373 |
| Net property, plant and equipment | $ 3,697 | $ 3,945 |

**NOTE 6: OTHER CURRENT LIABILITIES**

Other current liabilities are as follows (in millions):

| | June 30, 2007 | September 30, 2006 |
|---|---|---|
| Accrued salaries, wages and benefits | $ 237 | $ 280 |
| Self-insurance reserves | 260 | 265 |
| Other | 305 | 367 |
| Total other current liabilities | $ 802 | $ 912 |

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**NOTE 7: LONG-TERM DEBT**

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

| | Maturity | June 30, 2007 | September 30, 2006 |
|---|---|---|---|
| Revolving Credit Facility | 2010 | $ - | $ - |
| Senior notes | | | |
| (rates ranging from 6.85% to 8.25%) | 2010 2028 | 2,477 | 3,388 |
| Lakeside Term Loan (6.32% effective rate at 6/30/07 and 6.36% effective rate at 9/30/06) | 2008 | 195 | 345 |
| Accounts Receivable Securitization (5.98% effective rate) | 2007, 2009 | 237 | 159 |
| Leveraged equipment loans | | | |
| (rates ranging from 4.67% to 5.18%) | 2007 2008 | 19 | 38 |
| Other | Various | 49 | 49 |
| Total debt | | 2,977 | 3,979 |
| Less current debt | | 150 | 992 |
| Total long-term debt | | $ 2,827 | $ 2,987 |

The Company has an unsecured revolving credit facility, which expires in September 2010, totaling $1.0 billion that supports the Company s short-term funding needs and letters of credit. At June 30, 2007, the Company had outstanding letters of credit totaling approximately $268 million, none of which were drawn upon, issued primarily in support of workers compensation insurance programs and derivative activities. The amount available as of June 30, 2007, was $732 million.

Lakeside Farm Industries, Ltd. (Lakeside), a wholly-owned subsidiary of the Company, has an unsecured three-year term agreement (Lakeside Term Loan) with the principal balance due September 2008. The agreement provides for interest rates ranging from LIBOR plus 0.4 percent to LIBOR plus one percent depending on the Company s debt rating. Interest payments are made at least quarterly.

At June 30, 2007, the Company had a receivables purchase agreement with three co-purchasers to sell up to $750 million of trade receivables consisting of $375 million expiring in August 2007 and $375 million expiring in August 2009. On August 8, 2007, the Company extended the expiration dates under the receivables purchase agreement to provide that $375 million in commitments under the agreement expire in August 2008 and the other $375 million in commitments expire in August 2010. The receivables purchase agreement has been accounted for as a borrowing and has an interest rate based on commercial paper issued by the co-purchasers. Under this agreement, substantially all of the Company s accounts receivable are sold to a special purpose entity, Tyson Receivables Corporation (TRC), which is a wholly-owned consolidated subsidiary of the Company. TRC has its own creditors entitled to be satisfied out of all of the assets of TRC prior to any value becoming available to the Company as TRC s equity holder. At June 30, 2007, there was $118.5 million outstanding under the receivables purchase agreement expiring in August 2007 and $118.5 million under the agreement expiring in August 2009.

In the second quarter of fiscal 2006, the Company issued $1.0 billion of senior unsecured notes, which will mature on April 1, 2016 (2016 Notes). The 2016 Notes carried an initial 6.60% interest rate, with interest payments due semi-annually on April 1 and October 1. In the first quarter of fiscal 2007, the Company used $750 million of the proceeds for the repayment of its outstanding $750 million 7.25% Notes due October 1, 2006.

As previously disclosed in the Company s 2006 Annual Report on Form 10-K (Form 10-K), on July 24, 2006, Moody s Investors Services, Inc. (Moody s) downgraded the Company s credit rating applicable to its 2016 Notes from Baa3 to Ba1. This

downgrade increased the interest rate on the 2016 Notes from 6.60% to 6.85%, effective on the first day of the interest period during which the rating change required an adjustment to the interest rate (i.e., the issuance of the 2016 Notes). This downgrade will increase annual interest expense and related fees by approximately $5 million, including $2.5 million related to the 2016 Notes. Additionally, on July 31, 2006, Standard & Poor s (S&P) downgraded the Company s credit rating applicable to the 2016 Notes from BBB to BBB-. This downgrade did not result in an increase in the interest rate on the 2016 Notes, nor did it result in an increase in interest expense or related fees for other debt.

Also as disclosed in Form 10-K, on September 18, 2006, Tyson Fresh Meats, Inc. (TFM), a wholly-owned subsidiary of the Company, guaranteed the 2016 Notes. This guarantee does not extend to the other unsecured senior notes of the Company. Moody s and S&P did not change the July 2006 credit ratings applicable to the 2016 Notes. However, Moody s issued a new credit rating of Ba2, and S&P issued a new credit rating of BB+ related to the other unsecured senior notes not guaranteed by TFM. These new ratings did not impact the interest rate applicable to the 2016 Notes. However, other interest expense and related fees for other debt will increase by less than $3 million per year.

The Company s debt agreements contain various covenants, the most restrictive of which contain maximum allowed leverage ratios and a minimum required interest coverage ratio. The Company was in compliance with all covenants at June 30, 2007.

The Company guarantees debt of outside third parties, which include a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt range from one to 10 years and the maximum potential amount of future payments as of June 30, 2007, was $74 million. The Company also maintains operating leases for various types of equipment, some of which contain residual value guarantees for the market value for assets at the end of the term of the lease. The terms of the lease maturities range from one to seven years. The maximum potential amount of the residual value guarantees is approximately $73 million, of which, approximately $26 million would be recoverable through various recourse provisions and an undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of payments under these guarantees is not considered to be probable. At June 30, 2007, and September 30, 2006, no liabilities for guarantees were recorded.

The Company has fully and unconditionally guaranteed $250 million of senior notes issued by TFM. Additionally, the Company has fully and unconditionally guaranteed $195 million related to the Lakeside Term Loan.

As stated above, TFM has fully and unconditionally guaranteed the Company s 2016 Notes. The following condensed consolidating financial information is provided for the Company, as issuer, and for TFM, as guarantor, as an alternative to providing separate financial statements for the guarantor.

The following financial information presents condensed consolidating financial statements, which include Tyson Foods, Inc. (TFI Parent); Tyson Fresh Meats, Inc. (TFM Parent); the Non-Guarantor Subsidiaries on a combined basis; the elimination entries necessary to consolidate the TFI Parent, TFM Parent and the Non-Guarantor Subsidiaries; and Tyson Foods, Inc. on a consolidated basis.

Condensed Consolidating Statement of Operations for the three months ended June 30, 2007 in millions

| | TFI Parent | TFM Parent | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net Sales | $ - | $ 3,966 | $ 3,200 | $ (208) | $ 6,958 |
| Cost of Sales | - | 3,857 | 2,882 | (208) | 6,531 |
| | - | 109 | 318 | - | 427 |
| Operating Expenses: | | | | | |
| Selling, general and administrative | 38 | 39 | 141 | - | 218 |
| Other charges | - | - | - | - | - |
| Operating Income (Loss) | (38) | 70 | 177 | - | 209 |
| Other (Income) Expense: | | | | | |
| Interest expense, net | 46 | 7 | 2 | - | 55 |
| Other, net | - | (7) | - | - | (7) |
| Equity in net earnings of subsidiaries | (168) | (15) | - | 183 | - |
| | (122) | (15) | 2 | 183 | 48 |
| Income before Income Taxes | 84 | 85 | 175 | (183) | 161 |
| Income Tax Expense (Benefit) | (27) | 22 | 55 | - | 50 |
| Net Income | $ 111 | $ 63 | $ 120 | $ (183) | $ 111 |

Condensed Consolidating Statement of Operations for the three months ended July 1, 2006 in millions

| | TFI Parent | TFM Parent | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net Sales | $ (1) | $ 3,587 | $ 2,978 | $ (181) | $ 6,383 |
| Cost of Sales | 2 | 3,532 | 2,827 | (181) | 6,180 |
| | (3) | 55 | 151 | - | 203 |
| Operating Expenses: | | | | | |
| Selling, general and administrative | 25 | 55 | 150 | - | 230 |
| Other charges | - | - | (2) | - | (2) |
| Operating Income (Loss) | (28) | - | 3 | - | (25) |
| Other (Income) Expense: | | | | | |
| Interest expense, net | 53 | 8 | 2 | - | 63 |
| Other, net | 3 | (3) | (12) | - | (12) |
| Equity in net earnings of subsidiaries | (5) | (8) | - | 13 | - |
| | 51 | (3) | (10 | | |