

TYSON FOODS INC  
Form 10-Q  
August 01, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 28, 2008

**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.)

**2210 West Oaklawn Drive, 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

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to such filing requirements for the past 90 days. 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 the 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 June 28, 2008.

| <u>Class</u>                                           | <u>Outstanding Shares</u> |
|--------------------------------------------------------|---------------------------|
| Class A Common Stock, \$0.10 Par Value (Class A stock) | 285,029,132               |
| Class B Common Stock, \$0.10 Par Value (Class B stock) | 70,021,155                |

**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 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Sales                                                                               | \$ 6,849           | \$ 6,618      | \$ 19,661         | \$ 19,155     |
| Cost of Sales                                                                       | 6,590              | 6,190         | 18,772            | 18,032        |
|                                                                                     | 259                | 428           | 889               | 1,123         |
| Selling, General and Administrative                                                 | 214                | 216           | 660               | 610           |
| Other Charges                                                                       | -                  | -             | 36                | 2             |
| Operating Income                                                                    | 45                 | 212           | 193               | 511           |
| Other (Income) Expense:                                                             |                    |               |                   |               |
| Interest income                                                                     | (3 )               | (2 )          | (7 )              | (6 )          |
| Interest expense                                                                    | 51                 | 57            | 159               | 176           |
| Other, net                                                                          | (1 )               | (9 )          | (24 )             | (11 )         |
|                                                                                     | 47                 | 46            | 128               | 159           |
| Income (Loss) from Continuing Operations before Income Taxes                        | (2 )               | 166           | 65                | 352           |
| Income Tax Expense                                                                  | 1                  | 52            | 24                | 117           |
| Income (Loss) from Continuing Operations                                            | (3 )               | 114           | 41                | 235           |
| Income (Loss) from Discontinued Operations, net of tax of \$6, \$(2), \$(2) and \$0 | 12                 | (3 )          | (3 )              | 1             |
| Net Income                                                                          | \$ 9               | \$ 111        | \$ 38             | \$ 236        |
| Weighted Average Shares Outstanding:                                                |                    |               |                   |               |
| Class A Basic                                                                       | 280                | 279           | 280               | 271           |
| Class B Basic                                                                       | 70                 | 70            | 70                | 77            |
| Diluted                                                                             | 350                | 356           | 355               | 355           |
| Earnings (Loss) Per Share from Continuing Operations:                               |                    |               |                   |               |
| Class A Basic                                                                       | \$ (0.01 )         | \$ 0.33       | \$ 0.12           | \$ 0.69       |
| Class B Basic                                                                       | \$ (0.01 )         | \$ 0.30       | \$ 0.11           | \$ 0.62       |
| Diluted                                                                             | \$ (0.01 )         | \$ 0.32       | \$ 0.12           | \$ 0.66       |
| Earnings (Loss) Per Share from Discontinued Operations:                             |                    |               |                   |               |
| Class A Basic                                                                       | \$ 0.04            | \$ (0.01 )    | \$ (0.01 )        | \$ -          |
| Class B Basic                                                                       | \$ 0.03            | \$ (0.01 )    | \$ (0.01 )        | \$ -          |
| Diluted                                                                             | \$ 0.04            | \$ (0.01 )    | \$ (0.01 )        | \$ -          |
| Net Earnings Per Share:                                                             |                    |               |                   |               |
| Class A Basic                                                                       | \$ 0.03            | \$ 0.32       | \$ 0.11           | \$ 0.69       |
| Class B Basic                                                                       | \$ 0.02            | \$ 0.29       | \$ 0.10           | \$ 0.62       |
| Diluted                                                                             | \$ 0.03            | \$ 0.31       | \$ 0.11           | \$ 0.66       |
| 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 28, 2008 | September 29, 2007 |
|-------------------------------------------------|---------------|--------------------|
| <b>Assets</b>                                   |               |                    |
| Current Assets:                                 |               |                    |
| Cash and cash equivalents                       | \$ 55         | \$ 42              |
| Accounts receivable, net                        | 1,252         | 1,246              |
| Inventories                                     | 2,473         | 2,159              |
| Other current assets                            | 192           | 70                 |
| Assets of discontinued operations held for sale | 163           | 164                |
| Total Current Assets                            | 4,135         | 3,681              |
| Net Property, Plant and Equipment               | 3,535         | 3,608              |
| Goodwill                                        | 2,500         | 2,485              |
| Intangible Assets                               | 123           | 126                |
| Other Assets                                    | 355           | 327                |
| Total Assets                                    | \$ 10,648     | \$ 10,227          |
| <b>Liabilities and Shareholders' Equity</b>     |               |                    |
| Current Liabilities:                            |               |                    |
| Current debt                                    | \$ 353        | \$ 137             |
| Trade accounts payable                          | 1,123         | 1,050              |
| Other current liabilities                       | 854           | 928                |
| Total Current Liabilities                       | 2,330         | 2,115              |
| Long-Term Debt                                  | 2,725         | 2,642              |
| Deferred Income Taxes                           | 333           | 367                |
| Other Liabilities                               | 485           | 372                |
| Shareholders' Equity:                           |               |                    |
| Common stock (\$0.10 par value):                |               |                    |
| Class A-authorized 900 million shares:          |               |                    |
| issued 300 million shares at June 28, 2008,     |               |                    |
| and September 29, 2007                          | 30            | 30                 |
| Class B-authorized 900 million shares:          |               |                    |
| issued 70 million shares at June 28, 2008,      |               |                    |
| and September 29, 2007                          | 7             | 7                  |
| Capital in excess of par value                  | 1,901         | 1,877              |
| Retained earnings                               | 2,972         | 2,993              |
| Accumulated other comprehensive income          | 99            | 50                 |
|                                                 | 5,009         | 4,957              |
| Less treasury stock, at cost-                   |               |                    |
| 15 million shares at June 28, 2008,             |               |                    |
| and 14 million shares at September 29, 2007     | 234           | 226                |
| Total Shareholders' Equity                      | 4,775         | 4,731              |
| Total Liabilities and Shareholders' Equity      | \$ 10,648     | \$ 10,227          |

See accompanying Notes to Consolidated Condensed Financial Statements.

## TYSON FOODS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

|                                                     | Nine Months Ended<br>June 28, 2008 | June 30, 2007 |
|-----------------------------------------------------|------------------------------------|---------------|
| Cash Flows From Operating Activities:               |                                    |               |
| Net income                                          | \$ 38                              | \$ 236        |
| Depreciation and amortization                       | 374                                | 386           |
| Deferred income taxes and other, net                | 2                                  | 25            |
| Net changes in working capital                      | (379 )                             | (342 )        |
| Cash Provided by Operating Activities               | 35                                 | 305           |
| Cash Flows From Investing Activities:               |                                    |               |
| Additions to property, plant and equipment          | (330 )                             | (164 )        |
| Proceeds from sale of property, plant and equipment | 23                                 | 65            |
| Proceeds from sale of investment                    | 22                                 | -             |
| Proceeds from sale of marketable securities         | 87                                 | 119           |
| Purchases of marketable securities                  | (101 )                             | (117 )        |
| Proceeds from sale of short-term investment         | -                                  | 770           |
| Other, net                                          | (16 )                              | 8             |
| Cash Provided by (Used for) Investing Activities    | (315 )                             | 681           |
| Cash Flows From Financing Activities:               |                                    |               |
| Net borrowings on revolving credit facilities       | 378                                | 78            |
| Payments on debt                                    | (91 )                              | (1,084 )      |
| Proceeds from borrowings of debt                    | 3                                  | -             |
| Purchases of treasury shares                        | (25 )                              | (54 )         |
| Dividends                                           | (42 )                              | (42 )         |
| Increase in negative book cash balances             | 51                                 | 80            |
| Stock options exercised                             | 8                                  | 60            |
| Other, net                                          | 4                                  | (8 )          |
| Cash Provided by (Used for) Financing Activities    | 286                                | (970 )        |
| Effect of Exchange Rate Change on Cash              | 7                                  | 4             |
| Increase in Cash and Cash Equivalents               | 13                                 | 20            |
| Cash and Cash Equivalents at Beginning of Year      | 42                                 | 28            |
| Cash and Cash Equivalents at End of Period          | \$ 55                              | \$ 48         |

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. (collectively, "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 September 29, 2007. 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, including normal recurring accruals, necessary to present fairly our financial position as of June 28, 2008, the results of operations for the three and nine months ended and cash flows for the nine months ended June 28, 2008, and June 30, 2007. Results of operations and cash flows are not necessarily indicative of results to be expected for the full year.

**RECENTLY ADOPTED 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. We adopted FIN 48 at the beginning of fiscal 2008. The adoption of FIN 48 resulted in a change to the opening Consolidated Condensed Balance Sheets as follows: \$32 million increase to Other Current Assets, \$17 million decrease to Other Current Liabilities, \$106 million increase to Other Liabilities, \$40 million decrease to Deferred Income Taxes and \$17 million decrease to Retained Earnings. Included in these changes we recognized a \$120 million increase in the liability for unrecognized tax benefits and a \$21 million increase in the related liability for interest and penalties for a total of \$141 million.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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 financial liabilities at fair value. SFAS No. 157 and SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years; therefore, we expect to adopt SFAS No. 157 and SFAS No. 159 at the beginning of fiscal 2009 for financial assets and financial liabilities. In accordance with FASB Staff Position 157-2, we will begin measuring the fair value of nonfinancial assets and nonfinancial liabilities at the beginning of fiscal

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2010. We are in process of evaluating the potential impacts of SFAS No. 157 and SFAS No. 159.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements to establish accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the

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consolidated entity and should be reported as equity in the consolidated financial statements, rather than in the liability or mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The impact of SFAS No. 160 will not have a material impact on our current Consolidated Condensed Financial Statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 160 at the beginning of fiscal 2010.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of business combination. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 141R for any business combinations entered into beginning in fiscal 2010.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 establishes enhanced disclosure requirements about: 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; therefore, we expect to adopt SFAS No. 161 in the second quarter of fiscal 2009.

### RECLASSIFICATIONS

Certain reclassifications related to the classification of items on the Consolidated Condensed Financials Statements have been made to conform with current presentations.

### **NOTE 2: DISCONTINUED OPERATIONS**

On June 25, 2008, we entered into a letter of intent with XL Foods Inc. to sell the beef processing, cattle feedyard and fertilizer assets of Lakeside Farm Industries Ltd (Lakeside) for \$106 million. Lakeside, our wholly-owned Canadian subsidiary, was part of our Beef segment. XL Foods will pay an additional amount for cattle inventory, fertilizer inventory and packaging assets, estimated to approximate \$85 million. This transaction is denominated in Canadian Dollars, so conversion at the closing date to US Dollars could be different than noted above. We will retain the finished product inventory, accounts receivable and accounts payable of the Lakeside operations as of the closing date.

The transaction remains subject to government approvals, receipt of commercially reasonable financing by XL Foods and execution of a definitive agreement between Tyson and XL Foods. We hope to complete the sale by the end of fiscal 2008 and are reporting the Lakeside results as a discontinued operation.

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

| Three Months Ended |               | Nine Months Ended |               |
|--------------------|---------------|-------------------|---------------|
| June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |

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|                      |        |        |        |        |
|----------------------|--------|--------|--------|--------|
| Sales                | \$ 361 | \$ 340 | \$ 927 | \$ 862 |
| Pretax income (loss) | 18     | (5)    | (5)    | 1      |

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The carrying amounts of Lakeside's assets held for sale include the following (in millions):

|                                                       | June 28, 2008 | September 29, 2007 |
|-------------------------------------------------------|---------------|--------------------|
| Assets of discontinued operations held for sale:      |               |                    |
| Inventories                                           | \$ 85         | \$ 79              |
| Net property, plant and equipment                     | 78            | 85                 |
| Total assets of discontinued operations held for sale | \$ 163        | \$ 164             |

### NOTE 3: DISPOSITIONS AND OTHER CHARGES

In the third quarter of fiscal 2008, we recorded estimated charges of \$7 million related to flood damage at our Jefferson, Wisconsin, plant. This amount is reflected in the Prepared Foods segment's Operating Income and included in the Consolidated Condensed Statements of Operations in Cost of Sales. Also in the third quarter of fiscal 2008, we recorded a charge of \$6 million related to the impairment of unimproved real property in Memphis, Tennessee. This amount is reflected in the Chicken segment's Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Cost of Sales.

On February 29, 2008, we announced discontinuation of an existing product line and closing of one of our three poultry plants in Wilkesboro, North Carolina. The Wilkesboro Cooked Products plant ceased operations during the second quarter of fiscal 2008. The closure resulted in elimination of approximately 400 jobs. In the second quarter of fiscal 2008, we recorded charges of \$13 million for estimated impairment charges. This amount is reflected in the Chicken segment's Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges. No material adjustments to the accrual are anticipated.

On January 25, 2008, we announced the decision to restructure operations at our Emporia, Kansas, beef plant. Beef slaughter operations ceased during the second quarter of fiscal 2008. However, the facility will still be used to process certain commodity, specialty cuts and ground beef, as well as a cold storage and distribution warehouse. This restructuring resulted in elimination of approximately 1,700 jobs at the Emporia plant. In the second quarter of fiscal 2008, we recorded charges of \$10 million for estimated impairment charges and \$7 million of other closing costs, consisting of \$6 million for employee termination benefits and \$1 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. As of June 28, 2008, the \$7 million of other closing costs had been paid and no material adjustments to the accrual are anticipated.

In the first quarter of fiscal 2008, we recorded an \$18 million non-operating gain as the result of a private equity firm's purchase of a technology company in which we held a minority interest. This gain was recorded in Other Income in the Consolidated Condensed Statements of Operations.

In the first quarter of fiscal 2008, management approved plans for implementation of certain recommendations resulting from the previously announced FAST initiative, which was focused on process improvement and efficiency creation. As a result, in the first quarter of fiscal 2008, we recorded charges of \$6 million related to employee termination benefits resulting from termination of approximately 200 employees. Of these charges, \$2 million, \$2 million, \$1 million and \$1 million, respectively, were recorded in the Chicken, Beef, Pork and Prepared Foods segments' Operating Income (Loss) and included in the Consolidated Condensed Statements of Operations in Other Charges. As of June 28, 2008, \$5 million of employee termination benefits had been paid. No material adjustments to the accrual are anticipated.

In May 2007, we announced completion of the sale of two of our Alabama poultry plants and related support facilities. As part of strategic efforts to reduce production of commodity chicken, we sold our 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

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company, while the remaining employees were offered the opportunity to transfer to our other operations in Alabama. We 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.

**NOTE 4: FINANCIAL INSTRUMENTS**

We purchase certain commodities, such as grains, livestock and natural gas in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce our 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 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 is immediately recognized in earnings as a component of cost of sales. Instruments we hold as part of our risk management activities that do not meet the criteria for hedge accounting are marked to fair value with unrealized gains or losses reported currently in earnings. Changes in market value of derivatives used in our 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 our risk management activities relating to forward sales contracts are recorded in sales. We generally do not hedge anticipated transactions beyond 12 months.

We had derivative related balances of \$32 million and \$16 million recorded in other current assets at June 28, 2008, and September 29, 2007, respectively, and \$82 million and \$48 million in other current liabilities at June 28, 2008, and September 29, 2007, respectively.

**Cash flow hedges:** We use derivatives as a tool to help manage the financial and commodity market risks of our 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 our cash flow hedges was not significant during the three and nine months ended June 28, 2008, and June 30, 2007.

Derivative products related to grain procurement that meet the criteria for hedge accounting and are so designated, are considered cash flow hedges, as they hedge against changes in the amount of future cash flows related to commodities procurement. We do not purchase derivative products related to grain procurement in excess of our physical grain consumption requirements. Related to grain hedges, there were \$25 million of net gains recorded in accumulated other comprehensive income at June 28, 2008. These gains will be recognized within the next 12 months. Of these gains, the portion resulting from our open hedge positions was a net gain of \$5 million as of June 28, 2008.

**Fair value hedges:** We designate certain futures contracts as fair value hedges of firm commitments to purchase market hogs for slaughter and natural gas for the operation of our plants. From time to time, we also enter 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. The fair value of the foreign exchange contracts was not significant as of June 28, 2008, and September 29, 2007. 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 fair value hedges was not significant during the three and nine months ended June 28, 2008, and June 30, 2007.

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**Undesignated positions:** We hold positions as part of our risk management activities, primarily futures and options for grains, livestock and natural gas, for which we do not apply hedge accounting, but instead mark these positions to fair value through earnings at each reporting date. We generally do not enter into these undesignated positions beyond 18 months. Related to grain positions for which we did not apply hedge accounting, we recognized pretax net gains of approximately \$53 million and \$125 million in cost of sales for the three and nine months ended June 28, 2008, respectively, which included an unrealized pretax gain

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on open mark-to-market futures positions of approximately \$19 million as of June 28, 2008. We recognized pretax net losses of \$9 million and net gains of \$58 million for the three and nine months ended June 30, 2007, respectively.

We enter 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 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, 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. In connection with these livestock futures, we recorded realized and unrealized net losses of \$71 million and \$4 million for the three and nine months ended June 28, 2008, respectively, which included an unrealized pretax loss on open mark-to-market futures positions of \$80 million as of June 28, 2008. We recorded realized and unrealized net gains of \$24 million and \$14 million for the three and nine months ended June 30, 2007, respectively.

During fiscal 2006, we discontinued the use of hedge accounting for certain financial instruments in place to hedge forward cattle purchases to provide a natural offset to the gains and losses resulting from our derivatives tied to fixed forward price sales of boxed beef. However, due to changes in our beef market strategies and business conditions, we now have more forward cattle purchase derivatives relative to fixed forward boxed beef sales derivatives which can and have caused mark-to-market earnings volatility. We will prospectively use hedge accounting treatment for certain financial instruments put in place to hedge forward cattle purchases. We anticipate this change will help reduce volatility of quarterly reported beef earnings.

### NOTE 5: INVENTORIES

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

|                                                      | June 28, 2008 | September 29, 2007 |
|------------------------------------------------------|---------------|--------------------|
| Processed products:                                  |               |                    |
| Weighted-average method - chicken and prepared foods | \$ 903        | \$ 773             |
| First-in, first-out method - beef and pork           | 522           | 514                |
| Livestock - first-in, first-out method               | 693           | 573                |
| Supplies and other - weighted-average method         | 355           | 299                |
| Total inventory                                      | \$ 2,473      | \$ 2,159           |

### NOTE 6: PROPERTY, PLANT AND EQUIPMENT

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

|                                      | June 28, 2008 | September 29, 2007 |
|--------------------------------------|---------------|--------------------|
| Land                                 | \$ 92         | \$ 99              |
| Buildings and leasehold improvements | 2,443         | 2,423              |
| Machinery and equipment              | 4,355         | 4,255              |

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|                                            |          |          |
|--------------------------------------------|----------|----------|
| Land improvements and other                | 207      | 200      |
| Buildings and equipment under construction | 337      | 245      |
|                                            | 7,434    | 7,222    |
| Less accumulated depreciation              | 3,899    | 3,614    |
| Net property, plant and equipment          | \$ 3,535 | \$ 3,608 |

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**NOTE 7: OTHER CURRENT LIABILITIES**

Other current liabilities are as follows (in millions)

|                                      | June 28, 2008 | September 29, 2007 |
|--------------------------------------|---------------|--------------------|
| Self-insurance reserves              | \$ 237        | \$ 259             |
| Accrued salaries, wages and benefits | 230           | 249                |
| Other                                | 387           | 420                |
| Total other current liabilities      | \$ 854        | \$ 928             |

**NOTE 8: COMMITMENTS**

We guarantee debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to 10 years, and the maximum potential amount of future payments as of June 28, 2008, was \$69 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The terms of the lease maturities cover periods up to seven years. The maximum potential amount of the residual value guarantees is \$55 million, of which \$22 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 material payments under these guarantees is not considered probable. At June 28, 2008, and September 29, 2007, no material liabilities for guarantees were recorded.

**NOTE 9: LONG-TERM DEBT**

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

|                                                                      | Maturity   | June 28, 2008 | September 29, 2007 |
|----------------------------------------------------------------------|------------|---------------|--------------------|
| Revolving credit facility                                            | 2010       | \$ -          | \$ -               |
| Senior notes (rates ranging from 6.85% to 8.25%)                     | 2010 2028  | 2,400         | 2,475              |
| Lakeside term loan (3.38% effective rate at 6/28/08)                 | 2009       | 25            | 25                 |
| Accounts receivable securitization (3.30% effective rate at 6/28/08) | 2008, 2010 | 591           | 213                |
| Other                                                                | Various    | 62            | 66                 |
| Total debt                                                           |            | 3,078         | 2,779              |
| Less current debt                                                    |            | 353           | 137                |
| Total long-term debt                                                 |            | \$ 2,725      | \$ 2,642           |

We have an unsecured revolving credit facility totaling \$1.0 billion that supports short-term funding needs and letters of credit. The facility expires in September 2010. At June 28, 2008, we had outstanding letters of credit totaling \$285 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 28, 2008, was \$715 million.



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We have a receivables purchase agreement with three co-purchasers to sell up to \$750 million of trade receivables consisting of \$375 million expiring in August 2008 and \$375 million expiring 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 our 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 28, 2008, there was \$295.5 million outstanding under the receivables purchase agreement expiring in August 2008 and \$295.5 million outstanding under the agreement expiring in August 2010. The amount available as of June 28, 2008, was \$159 million.

Our debt agreements contain various covenants, the most restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. We were in compliance with all covenants at June 28, 2008.

Tyson Fresh Meats, Inc., a wholly-owned subsidiary of the Company, has fully and unconditionally guaranteed \$960 million of our senior notes due April 1, 2016. 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, is provided as an alternative to providing separate financial statements for the guarantor.

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Condensed Consolidating Statement of Operations for the three months ended June 28, 2008 in millions

|                                                              | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|--------------------------------------------------------------|------------|------------|-------------------------------|--------------|------------|
| Sales                                                        | \$ 3       | \$ 4,007   | \$ 3,039                      | \$ (200      | ) \$ 6,849 |
| Cost of Sales                                                | 57         | 3,915      | 2,818                         | (200         | ) 6,590    |
|                                                              | (54        | ) 92       | 221                           | -            | 259        |
| Operating Expenses:                                          |            |            |                               |              |            |
| Selling, general and administrative                          | 35         | 45         | 134                           | -            | 214        |
| Other charges                                                | -          | -          | -                             | -            | -          |
| Operating Income (Loss)                                      | (89        | ) 47       | 87                            | -            | 45         |
| Other (Income) Expense:                                      |            |            |                               |              |            |
| Interest expense, net                                        | 46         | 4          | (2                            | ) -          | 48         |
| Other, net                                                   | -          | 1          | (2                            | ) -          | (1)        |
| Equity in net earnings of subsidiaries                       | (90        | ) (10      | ) -                           | 100          | -          |
|                                                              | (44        | ) (5       | ) (4                          | ) 100        | 47         |
| Income (Loss) from Continuing Operations before Income Taxes | (45        | ) 52       | 91                            | (100         | ) (2       |
| Income Tax Expense (Benefit)                                 | (54        | ) 16       | 39                            | -            | 1          |
| Income from Continuing Operations                            | 9          | 36         | 52                            | (100         | ) (3       |
| Income from Discontinued Operations                          | -          | -          | 12                            | -            | 12         |
| Net Income                                                   | \$ 9       | \$ 36      | \$ 64                         | \$ (100      | ) \$ 9     |

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

|                                                       | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|-------------------------------------------------------|------------|------------|-------------------------------|--------------|------------|
| Sales                                                 | \$ -       | \$ 3,966   | \$ 2,860                      | \$ (208      | ) \$ 6,618 |
| Cost of Sales                                         | -          | 3,857      | 2,541                         | (208         | ) 6,190    |
|                                                       | -          | 109        | 319                           | -            | 428        |
| Operating Expenses:                                   |            |            |                               |              |            |
| Selling, general and administrative                   | 38         | 39         | 139                           | -            | 216        |
| Other charges                                         | -          | -          | -                             | -            | -          |
| Operating Income (Loss)                               | (38        | ) 70       | 180                           | -            | 212        |
| Other (Income) Expense:                               |            |            |                               |              |            |
| Interest expense, net                                 | 46         | 7          | 2                             | -            | 55         |
| Other, net                                            | -          | (7         | ) (2                          | ) -          | (9         |
| Equity in net earnings of subsidiaries                | (168       | ) (15      | ) -                           | 183          | -          |
|                                                       | (122       | ) (15      | ) -                           | 183          | 46         |
| Income from Continuing Operations before Income Taxes | 84         | 85         | 180                           | (183         | ) 166      |
| Income Tax Expense (Benefit)                          | (27        | ) 22       | 57                            | -            | 52         |
| Income from Continuing Operations                     | 111        | 63         | 123                           | (183         | ) 114      |
| Loss from Discontinued Operations                     | -          | -          | (3                            | ) -          | (3         |
| Net Income                                            | \$ 111     | \$ 63      | \$ 120                        | \$ (183      | ) \$ 111   |



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Condensed Consolidating Statement of Operations for the nine months ended June 28, 2008 in millions

|                                                              | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total       |   |
|--------------------------------------------------------------|------------|------------|-------------------------------|--------------|-------------|---|
| Sales                                                        | \$ 6       | \$ 11,436  | \$ 8,815                      | \$ (596)     | ) \$ 19,661 |   |
| Cost of Sales                                                | 106        | 11,177     | 8,085                         | (596)        | ) 18,772    |   |
|                                                              | (100       | ) 259      | 730                           | -            | 889         |   |
| Operating Expenses:                                          |            |            |                               |              |             |   |
| Selling, general and administrative                          | 89         | 141        | 430                           | -            | 660         |   |
| Other charges                                                | 1          | 18         | 17                            | -            | 36          |   |
| Operating Income (Loss)                                      | (190       | ) 100      | 283                           | -            | 193         |   |
| Other (Income) Expense:                                      |            |            |                               |              |             |   |
| Interest expense, net                                        | 142        | 15         | (5                            | ) -          | 152         |   |
| Other, net                                                   | (12        | ) (5       | ) (7                          | ) -          | (24         | ) |
| Equity in net earnings of subsidiaries                       | (239       | ) (36      | ) -                           | 275          | -           |   |
|                                                              | (109       | ) (26      | ) (12                         | ) 275        | 128         |   |
| Income (Loss) from Continuing Operations before Income Taxes | (81        | ) 126      | 295                           | (275         | ) 65        |   |
| Income Tax Expense (Benefit)                                 | (119       | ) 33       | 110                           | -            | 24          |   |
| Income from Continuing Operations                            | 38         | 93         | 185                           | (275         | ) 41        |   |
| Loss from Discontinued Operations                            | \$ -       | \$ -       | \$ (3                         | ) \$ -       | \$ (3       | ) |
| Net Income                                                   | 38         | 93         | 182                           | (275         | ) 38        |   |

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

|                                                       | Non-Guarantor |            |              |              |             |   |
|-------------------------------------------------------|---------------|------------|--------------|--------------|-------------|---|
|                                                       | TFI Parent    | TFM Parent | Subsidiaries | Eliminations | Total       |   |
| Sales                                                 | \$ 23         | \$ 11,326  | \$ 8,393     | \$ (587      | ) \$ 19,155 |   |
| Cost of Sales                                         | (64           | ) 11,075   | 7,608        | (587         | ) 18,032    |   |
|                                                       | 87            | 251        | 785          | -            | 1,123       |   |
| Operating Expenses:                                   |               |            |              |              |             |   |
| Selling, general and administrative                   | 92            | 128        | 390          | -            | 610         |   |
| Other charges                                         | 1             | 1          | -            | -            | 2           |   |
| Operating Income (Loss)                               | (6            | ) 122      | 395          | -            | 511         |   |
| Other (Income) Expense:                               |               |            |              |              |             |   |
| Interest expense, net                                 | 139           | 23         | 8            | -            | 170         |   |
| Other, net                                            | (1            | ) (27      | ) 17         | -            | (11         | ) |
| Equity in net earnings of subsidiaries                | (332          | ) (32      | ) -          | 364          | -           |   |
|                                                       | (194          | ) (36      | ) 25         | 364          | 159         |   |
| Income from Continuing Operations before Income Taxes | 188           | 158        | 370          | (364         | ) 352       |   |
| Income Tax Expense (Benefit)                          | (48           | ) 42       | 123          | -            | 117         |   |
| Income from Continuing Operations                     | 236           | 116        | 247          | (364         | ) 235       |   |
| Income from Discontinued Operations                   | -             | -          | 1            | -            | 1           |   |
| Net Income                                            | 236           | 116        | 248          | (364         | ) 236       |   |



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Condensed Consolidating Balance Sheet as of June 28, 2008

in millions

|                                                 | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total       |
|-------------------------------------------------|------------|------------|-------------------------------|--------------|-------------|
| <b>Assets</b>                                   |            |            |                               |              |             |
| Current Assets:                                 |            |            |                               |              |             |
| Cash and cash equivalents                       | \$ 3       | \$ 2       | \$ 50                         | \$ -         | \$ 55       |
| Accounts receivable, net                        | 1          | 548        | 1,385                         | (682)        | ) 1,252     |
| Inventories                                     | 1          | 695        | 1,777                         | -            | 2,473       |
| Other current assets                            | 220        | 33         | 116                           | (177)        | ) 192       |
| Assets of discontinued operations held for sale | -          | -          | 163                           | -            | 163         |
| Total Current Assets                            | 225        | 1,278      | 3,491                         | (859)        | ) 4,135     |
| Net Property, Plant and Equipment               | 43         | 971        | 2,521                         | -            | 3,535       |
| Goodwill                                        | -          | 1,501      | 999                           | -            | 2,500       |
| Intangible Assets                               | -          | 55         | 68                            | -            | 123         |
| Other Assets                                    | 106        | 100        | 182                           | (33)         | ) 355       |
| Investment in subsidiaries                      | 8,483      | 1,039      | -                             | (9,522)      | ) -         |
| Total Assets                                    | \$ 8,857   | \$ 4,944   | \$ 7,261                      | \$ (10,414)  | ) \$ 10,648 |
| <b>Liabilities and Shareholders' Equity</b>     |            |            |                               |              |             |
| Current Liabilities:                            |            |            |                               |              |             |
| Current debt                                    | \$ 307     | \$ -       | \$ 46                         | \$ -         | \$ 353      |
| Trade accounts payable                          | 92         | 454        | 577                           | -            | 1,123       |
| Other current liabilities                       | 899        | 220        | 594                           | (859)        | ) 854       |
| Total Current Liabilities                       | 1,298      | 674        | 1,217                         | (859)        | ) 2,330     |
| Long-Term Debt                                  | 2,471      | 249        | 5                             | -            | 2,725       |
| Deferred Income Taxes                           | -          | 71         | 295                           | (33)         | ) 333       |
| Other Liabilities                               | 313        | 105        | 67                            | -            | 485         |
| Shareholders' Equity                            | 4,775      | 3,845      | 5,677                         | (9,522)      | ) 4,775     |
| Total Liabilities and Shareholders' Equity      | \$ 8,857   | \$ 4,944   | \$ 7,261                      | \$ (10,414)  | ) \$ 10,648 |

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Condensed Consolidating Balance Sheet as of September 29, 2007

in millions

|                                                 | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total       |
|-------------------------------------------------|------------|------------|-------------------------------|--------------|-------------|
| <b>Assets</b>                                   |            |            |                               |              |             |
| Current Assets:                                 |            |            |                               |              |             |
| Cash and cash equivalents                       | \$ 3       | \$ -       | \$ 39                         | \$ -         | \$ 42       |
| Accounts receivable, net                        | 1          | 557        | 1,461                         | (773         | ) 1,246     |
| Inventories                                     | -          | 674        | 1,485                         | -            | 2,159       |
| Other current assets                            | 79         | 32         | 18                            | (59          | ) 70        |
| Assets of discontinued operations held for sale | -          | -          | 164                           | -            | 164         |
| Total Current Assets                            | 83         | 1,263      | 3,167                         | (832         | ) 3,681     |
| Net Property, Plant and Equipment               | 44         | 1,015      | 2,549                         | -            | 3,608       |
| Goodwill                                        | -          | 1,499      | 986                           | -            | 2,485       |
| Intangible Assets                               | -          | 57         | 69                            | -            | 126         |
| Other Assets                                    | 137        | 113        | 139                           | (62          | ) 327       |
| Investment in subsidiaries                      | 8,243      | 976        | -                             | (9,219       | ) -         |
| Total Assets                                    | \$ 8,507   | \$ 4,923   | \$ 6,910                      | \$ (10,113   | ) \$ 10,227 |
| <b>Liabilities and Shareholders' Equity</b>     |            |            |                               |              |             |
| Current Liabilities:                            |            |            |                               |              |             |
| Current debt                                    | \$ 120     | \$ -       | \$ 17                         | \$ -         | \$ 137      |
| Trade accounts payable                          | 79         | 517        | 454                           | -            | 1,050       |
| Other current liabilities                       | 1,008      | 143        | 609                           | (832         | ) 928       |
| Total Current Liabilities                       | 1,207      | 660        | 1,080                         | (832         | ) 2,115     |
| Long-Term Debt                                  | 2,355      | 255        | 32                            | -            | 2,642       |
| Deferred Income Taxes                           | -          | 168        | 261                           | (62          | ) 367       |
| Other Liabilities                               | 214        | 94         | 64                            | -            | 372         |
| Shareholders' Equity                            | 4,731      | 3,746      | 5,473                         | (9,219       | ) 4,731     |
| Total Liabilities and Shareholders' Equity      | \$ 8,507   | \$ 4,923   | \$ 6,910                      | \$ (10,113   | ) \$ 10,227 |

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Condensed Consolidating Statement of Cash Flows for the nine months ended June 28, 2008 in millions

|                                                  | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total  |
|--------------------------------------------------|------------|------------|-------------------------------|--------------|--------|
| Cash Provided by (Used for) Operating Activities | \$ (206 )  | \$ 66      | \$ 190                        | \$ (15 )     | \$ 35  |
| Cash Flows From Investing Activities:            |            |            |                               |              |        |
| Additions to property, plant and equipment       | (1 )       | (83 )      | (246 )                        | -            | (330 ) |
| Proceeds from sale of investment                 | 14         | 7          | 1                             | -            | 22     |
| Purchase of marketable securities, net           | -          | -          | (14 )                         | -            | (14 )  |
| Other, net                                       | (13 )      | 29         | (9 )                          | -            | 7      |
| Cash Used for Investing Activities               | -          | (47 )      | (268 )                        | -            | (315 ) |
| Cash Flows From Financing Activities:            |            |            |                               |              |        |
| Net change in debt                               | 302        | (5 )       | (7 )                          | -            | 290    |
| Purchase of treasury shares                      | (25 )      | -          | -                             | -            | (25 )  |
| Dividends                                        | (42 )      | -          | (15 )                         | 15           | (42 )  |
| Stock options exercised and other, net           | 57         | (1 )       | 7                             | -            | 63     |
| Net change in intercompany balances              | (86 )      | (11 )      | 97                            | -            | -      |
| Cash Provided by (Used for) Financing Activities | 206        | (17 )      | 82                            | 15           | 286    |
| Effect of Exchange Rate Change on Cash           | -          | -          | 7                             | -            | 7      |
| Increase in Cash and Cash Equivalents            | -          | 2          | 11                            | -            | 13     |
| Cash and Cash Equivalents at Beginning of Year   | 3          | -          | 39                            | -            | 42     |
| Cash and Cash Equivalents at End of Period       | \$ 3       | \$ 2       | \$ 50                         | \$ -         | \$ 55  |

Condensed Consolidating Statement of Cash Flows for the nine months ended June 30, 2007 in millions

|                                                  | TFI Parent | TFM Parent | Non-Guarantor<br>Subsidiaries | Eliminations | Total    |
|--------------------------------------------------|------------|------------|-------------------------------|--------------|----------|
| Cash Provided by (Used for) Operating Activities | \$ (126 )  | \$ 203     | \$ 253                        | \$ (25 )     | \$ 305   |
| Cash Flows From Investing Activities:            |            |            |                               |              |          |
| Additions to property, plant and equipment       | (14 )      | (21 )      | (129 )                        | -            | (164 )   |
| Proceeds from sale of short-term investment      | 770        | -          | -                             | -            | 770      |
| Sale of marketable securities, net               | -          | -          | 2                             | -            | 2        |
| Other, net                                       | 83         | 17         | (27 )                         | -            | 73       |
| Cash Provided by (Used for) Investing Activities | 839        | (4 )       | (154 )                        | -            | 681      |
| Cash Flows From Financing Activities:            |            |            |                               |              |          |
| Net change in debt                               | (721 )     | (2 )       | (283 )                        | -            | (1,006 ) |
| Purchase of treasury shares                      | (54 )      | -          | -                             | -            | (54 )    |
| Dividends                                        | (42 )      | -          | (25 )                         | 25           | (42 )    |
| Stock options exercised and other, net           | 128        | 4          | -                             | -            | 132      |
| Net change in intercompany balances              | (22 )      | (201 )     | 223                           | -            | -        |
| Cash Used for Financing Activities               | (711 )     | (199 )     | (85 )                         | 25           | (970 )   |
| Effect of Exchange Rate Change on Cash           | -          | -          | 4                             | -            | 4        |
| Increase in Cash and Cash Equivalents            | 2          | -          | 18                            | -            | 20       |
| Cash and Cash Equivalents at Beginning of Year   | 2          | 1          | 25                            | -            | 28       |
| Cash and Cash Equivalents at End of Period       | \$ 4       | \$ 1       | \$ 43                         | \$ -         | \$ 48    |



## NOTE 10: CONTINGENCIES

Listed below are certain claims made against the Company and our subsidiaries. In our opinion, we have made appropriate and adequate reserves, accruals and disclosures where necessary, 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 and reserves are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations. We believe we have substantial defenses to the claims made and intend to vigorously defend these cases.

In 2000, the Wage and Hour Division of the U.S. Department of Labor (DOL) conducted an industry-wide investigation of poultry producers, including us, to ascertain compliance with various wage and hour issues. As part of this investigation, the DOL inspected 14 of our processing facilities. On May 9, 2002, the DOL filed a civil complaint styled Elaine L. Chao, Secretary of Labor, United States Department of Labor v. Tyson Foods, Inc. against us in the U.S. District Court for the Northern District of Alabama. The plaintiffs allege in the complaint that we violated the overtime provisions of the federal Fair Labor Standards Act at our chicken-processing facility in Blountsville, Alabama. The complaint does not contain a definite statement of what acts constituted alleged violations of the statute, although the Secretary of Labor indicated in discovery the case seeks to require us to compensate all hourly chicken processing workers for pre- and post-shift clothes changing, washing and related activities and for one of two unpaid 30-minute meal periods. The Secretary of Labor seeks unspecified back wages for all employees at the Blountsville facility for a period of two years prior to the date of the filing of the complaint, and an additional amount in unspecified liquidated damages and an injunction against future violations at that facility and all other chicken processing facilities we operate. The District Court granted the Company's motion for partial summary judgment in part, ruling that the second meal period is appropriately characterized as non-compensable, and reserving the remaining issues for trial. The trial is set for November 3, 2008.

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 Fair Labor Standards Act. These lawsuits include M.H. Fox, et al. v. Tyson Foods, Inc. (Fox), filed on June 22, 1999, in the U.S. District Court for the Northern District of Alabama, and De Asencio v. Tyson Foods, Inc. (DeAsencio), filed on August 22, 2000, in the U.S. District Court for the Eastern District of Pennsylvania. Each of these matters 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. The plaintiffs in 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. In Fox, the District Court denied class certification on November 16, 2006, and ordered the cases of the 10 named plaintiffs in the matter to proceed individually in the home jurisdictions of the named plaintiffs. Two of these cases (Brothers and Hatchett) were tried in November 2007 in Alabama with jury verdicts in favor of the plaintiffs. The District Court recently entered judgment in the final of these cases (Fox) after the Company made an offer of judgment to Fox, thereby avoiding trial. However, the District Court must now determine the amount of attorneys' fees and costs to be awarded to the plaintiffs. In DeAsencio, plaintiffs appealed a jury verdict and final judgment entered in our favor on June 22, 2006, in the District Court. 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.

In addition to Fox and DeAsencio, additional private lawsuits were filed against us since the beginning of fiscal 2007 which allege we failed to compensate poultry plant employees for all hours worked, including overtime compensation, in violation of the Fair Labor Standards Act. These lawsuits 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. Dist. Alabama, December 21, 2006); Buchanan, et al. v. Tyson Chicken, Inc., et al. and Potter, et al. v. Tyson Chicken, Inc., et al. (N. Dist. 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. Dist. Mississippi, February 9, 2007); Balch, et al. v. Tyson Foods, Inc. (E. Dist. Oklahoma, March 1, 2007); Adams, et al. v. Tyson Foods, Inc. (W. Dist. Arkansas, March 2, 2007); Atkins, et al. v. Tyson Foods, Inc. (M. Dist. Georgia, March 5, 2007); and Laney, et al. v. Tyson Foods, Inc. and Williams, et al. v. Tyson Foods, Inc. (M. Dist. Georgia, May 23, 2007). Similar to Fox and DeAsencio, each of these matters involves allegations employees should be paid for



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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. The motion for transfer was granted on August 17, 2007. The cases listed above and five other cases subsequently filed involving the same allegations, including *Armstrong, et al. v. Tyson Foods, Inc.* (W. Dist. Tennessee, January 30, 2008); *Maldonado, et al. v. Tyson Foods, Inc.* (E. Dist. Tennessee, January 31, 2008); *White, et al. v. Tyson Foods, Inc.* (E. Dist. Texas, February 1, 2008); *Meyer, et al. v. Tyson Foods, Inc.* (W. Dist. Missouri, February 2, 2008); and *Leak, et al. v. Tyson Foods, Inc.* (W. Dist. 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 Judge in the MDL Proceedings issued a Joint Scheduling and Case Management Order. The 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. As of April 18, 2008, the parties began conducting discovery for a period of 240 days at eight of our facilities and our corporate headquarters in Springdale, Arkansas. Discovery may be conducted at additional facilities in the future.

On November 21, 2002, 10 current and former hourly employees of a TFM case ready facility in Goodlettsville, Tennessee, filed a putative class action lawsuit styled *Emily D. Jordan, et al. v. IBP, inc. and Tyson Foods, Inc.* in the U.S. District Court for the Middle District of Tennessee against us claiming violations of the overtime provisions of the Fair Labor Standards Act by failing to pay employees for all hours worked. The suit further alleges employees should be paid for the time it takes to collect, assemble and put on, take off and wash their health, safety and production gear at the beginning and end of their shifts and during their meal period. Finally, the suit alleges we deduct 30 minutes per day from employees' paychecks regardless of whether employees use a full 30-minute period for their meal. The plaintiffs seek a declaration that the defendants did not comply with the Fair Labor Standards Act, and an award for an unspecified amount of back pay compensation and benefits, unpaid entitlements, liquidated damages, prejudgment and post-judgment interest, attorney fees and costs. On November 17, 2003, the District Court conditionally certified a collective action based on clothes changing and washing activities and unpaid production work during meal periods, since the plant operations began in April 2001. Approximately 650 current and former employees have opted into the class. On August 20, 2007, both parties filed motions for summary judgment. The court granted in part and denied in part the parties' motions for partial summary judgment on March 13, 2008. Issues remaining for trial include whether the de minimis defense applies to compensable pre- and post-shift clothes-changing and washing activities occurring between the donning and doffing of the frock, and whether the meal period is compensable. A jury trial is set to begin on September 16, 2008.

### NOTE 11: PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Components of net periodic benefit cost for pension and other postretirement benefit plans recognized in the Consolidated Condensed Statements of Operations were as follows (in millions):

|                                    | Pension Benefits   |               | Other Postretirement Benefits |               |
|------------------------------------|--------------------|---------------|-------------------------------|---------------|
|                                    | Three Months Ended |               | Three Months Ended            |               |
|                                    | June 28, 2008      | June 30, 2007 | June 28, 2008                 | June 30, 2007 |
| Service cost                       | \$ 1               | \$ 1          | \$ -                          | \$ -          |
| Interest cost                      | 1                  | 2             | -                             | 1             |
| Amortization of prior service cost | -                  | 1             | -                             | (1)           |
| Expected return on plan assets     | (1)                | (2)           | -                             | -             |
| Recognized actuarial loss          | -                  | -             | 1                             | -             |
| Net periodic benefit cost          | \$ 1               | \$ 2          | \$ 1                          | \$ -          |



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|                                    | Pension Benefits  |               | Other Postretirement Benefits |               |
|------------------------------------|-------------------|---------------|-------------------------------|---------------|
|                                    | Nine Months Ended |               | Nine Months Ended             |               |
|                                    | June 28, 2008     | June 30, 2007 | June 28, 2008                 | June 30, 2007 |
| Service cost                       | \$ 3              | \$ 4          | \$ -                          | \$ -          |
| Interest cost                      | 5                 | 5             | 2                             | 3             |
| Amortization of prior service cost | -                 | 1             | -                             | (2)           |
| Expected return on plan assets     | (5)               | (5)           | -                             | -             |
| Recognized actuarial loss          | -                 | 1             | 2                             | -             |
| Net periodic benefit cost          | \$ 3              | \$ 6          | \$ 4                          | \$ 1          |

## NOTE 12: INCOME TAXES

The effective tax rate for continuing operations was (32.6%) and 31.3% for the third quarter of fiscal years 2008 and 2007, respectively. The effective tax rate for continuing operations was 37.1% and 33.3% for the nine months of fiscal years 2008 and 2007, respectively. The effective rate for the third quarter of fiscal 2008 was impacted by such items as state income taxes, Domestic Production Deduction, general business credits, certain nondeductible items and composition of income and loss between domestic and foreign operations. On December 20, 2006, the President signed into law the Tax Relief and Health Care Act of 2006 which provided for the retroactive extension to December 31, 2007, of certain general business credits that expired on December 31, 2005. As a result, in the first quarter of fiscal 2007, we recognized \$4 million of credits relating to fiscal 2006. On October 1, 2007, Mexico's new IETU tax law was enacted and took effect on January 1, 2008. The enactment of this new law did not have a material impact on the income tax provision for the third quarter and nine months of fiscal 2008.

At the beginning of fiscal 2008, we adopted FIN 48. See Note 1, Accounting Policies for the impact of the adoption.

At the beginning of fiscal 2008, our unrecognized tax benefits were \$210 million. The amount of unrecognized tax benefits, if recognized, that would affect our effective tax rate was \$61 million. During the first quarter of fiscal 2008, the amount of unrecognized tax benefits decreased by approximately \$18 million related to U.S. federal income tax settlements. During the third quarter of fiscal 2008, the amount of unrecognized tax benefits increased by approximately \$22 million, of which no individual item was material. There were no other material changes for the first nine months of fiscal 2008.

We classify interest and penalties on unrecognized tax benefits as income tax expense. At the beginning of fiscal 2008, before tax benefits, we had \$70 million of accrued interest and penalties on unrecognized tax benefits.

Within the next twelve months from the date of adoption, tax audit resolutions could potentially reduce unrecognized tax benefits by approximately \$50 million, either because tax positions are sustained on audit or because we agree to their disallowance. Of this amount, a payment of tax of \$13 million was made during the first quarter of fiscal 2008. There were no other material changes during the first nine months of fiscal 2008. We are subject to income tax examinations for U.S. federal income taxes for fiscal years 1998 through 2007, and for foreign, state and local income taxes for fiscal years 2001 through 2007.

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## NOTE 13: EARNINGS (LOSS) PER SHARE

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

|                                                                                                            | Three Months Ended<br>June 28, 2008 |   | June 30, 2007 | Nine Months Ended<br>June 28, 2008 |   | June 30, 2007 |
|------------------------------------------------------------------------------------------------------------|-------------------------------------|---|---------------|------------------------------------|---|---------------|
| Numerator:                                                                                                 |                                     |   |               |                                    |   |               |
| Net income (loss) from continuing operations                                                               | \$ (3                               | ) | \$ 114        | \$ 41                              |   | \$ 235        |
| Net income (loss) from discontinued operations                                                             | 12                                  |   | (3            | (3                                 | ) | 1             |
| Net income                                                                                                 | 9                                   |   | 111           | 38                                 |   | 236           |
| Less Dividends:                                                                                            |                                     |   |               |                                    |   |               |
| Class A (\$0.040/share/quarter)                                                                            | 11                                  |   | 12            | 34                                 |   | 34            |
| Class B (\$0.036/share/quarter)                                                                            | 3                                   |   | 2             | 8                                  |   | 8             |
| Undistributed earnings (losses)                                                                            |                                     |   |               |                                    |   |               |
|                                                                                                            | \$ (5                               | ) | \$ 97         | \$ (4                              | ) | \$ 194        |
| Class A undistributed earnings (losses)                                                                    | (4                                  | ) | 78            | (3                                 | ) | 155           |
| Class B undistributed earnings (losses)                                                                    | (1                                  | ) | 19            | (1                                 | ) | 39            |
| Total undistributed earnings (losses)                                                                      | \$ (5                               | ) | \$ 97         | \$ (4                              | ) | \$ 194        |
| Denominator:                                                                                               |                                     |   |               |                                    |   |               |
| Denominator for basic earnings per share:                                                                  |                                     |   |               |                                    |   |               |
| Class A weighted average shares                                                                            | 280                                 |   | 279           | 280                                |   | 271           |
| Class B weighted average shares, and<br>shares under if-converted method for<br>diluted earnings per share | 70                                  |   | 70            | 70                                 |   | 77            |
| Effect of dilutive securities:                                                                             |                                     |   |               |                                    |   |               |
| Stock options and restricted stock                                                                         | -                                   |   | 7             | 5                                  |   | 7             |
| Denominator for diluted earnings per<br>share adjusted weighted average<br>shares and assumed conversions  | 350                                 |   | 356           | 355                                |   | 355           |
| Earnings (Loss) Per Share from Continuing Operations:                                                      |                                     |   |               |                                    |   |               |
| Class A Basic                                                                                              | \$ (0.01                            | ) | \$ 0.33       | \$ 0.12                            |   | \$ 0.69       |
| Class B Basic                                                                                              | \$ (0.01                            | ) | \$ 0.30       | \$ 0.11                            |   | \$ 0.62       |
| Diluted                                                                                                    | \$ (0.01                            | ) | \$ 0.32       | \$ 0.12                            |   | \$ 0.66       |
| Earnings (Loss) Per Share from Discontinued Operations:                                                    |                                     |   |               |                                    |   |               |
| Class A Basic                                                                                              | \$ 0.04                             |   | \$ (0.01      | (0.01                              | ) | \$ -          |
| Class B Basic                                                                                              | \$ 0.03                             |   | \$ (0.01      | (0.01                              | ) | \$ -          |
| Diluted                                                                                                    | \$ 0.04                             |   | \$ (0.01      | (0.01                              | ) | \$ -          |
| Net Earnings Per Share                                                                                     |                                     |   |               |                                    |   |               |
| Class A Basic                                                                                              | \$ 0.03                             |   | \$ 0.32       | \$ 0.11                            |   | \$ 0.69       |
| Class B Basic                                                                                              | \$ 0.02                             |   | \$ 0.29       | \$ 0.10                            |   | \$ 0.62       |
| Diluted                                                                                                    | \$ 0.03                             |   | \$ 0.31       | \$ 0.11                            |   | \$ 0.66       |

Approximately 23 million and 11 million of our option shares were antidilutive for the three and nine months ended June 28, 2008, respectively, and zero and 6 million were antidilutive for the three and nine months ended June 30, 2007, respectively. These shares were not included in the dilutive earnings per share calculation.

We have two classes of capital stock, Class A Common Stock (Class A stock) and Class B Common Stock (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



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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.

### NOTE 14: COMPREHENSIVE INCOME

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

|                                                                  | Three Months Ended |               | Nine Months Ended |               |
|------------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                                  | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Net income                                                       | \$ 9               | \$ 111        | \$ 38             | \$ 236        |
| Other comprehensive income, net of tax:                          |                    |               |                   |               |
| Postretirement benefits reserve adjustment                       | -                  | -             | (1 )              | -             |
| Currency translation adjustment                                  | 13                 | 15            | 22                | 20            |
| Investments unrealized loss                                      | (1 )               | (1 )          | (1 )              | -             |
| Net hedging unrealized gain (loss)                               | (4 )               | (8 )          | 19                | 19            |
| Net hedging unrealized (gain) loss reclassified to cost of sales | 10                 | (12 )         | 10                | (19 )         |
| Total comprehensive income                                       | \$ 27              | \$ 105        | \$ 87             | \$ 256        |

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

|                                                                  | Three Months Ended |               | Nine Months Ended |               |
|------------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                                  | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Income tax benefit (expense):                                    |                    |               |                   |               |
| Postretirement benefits reserve adjustment                       | \$ -               | \$ -          | \$ (1 )           | \$ -          |
| Net hedging unrealized gain (loss)                               | 2                  | 5             | (13 )             | (12 )         |
| Net hedging unrealized (gain) loss reclassified to cost of sales | (6 )               | 7             | (6 )              | 12            |
| Total income tax benefit (expense)                               | \$ (4 )            | \$ 12         | \$ (20 )          | \$ -          |

**NOTE 15: 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. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. The Chicken segment also includes sales from allied products and our chicken breeding stock subsidiary.

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

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

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

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

|                                                              | Three Months Ended |               | Nine Months Ended |               |
|--------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                              | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Sales:                                                       |                    |               |                   |               |
| Chicken                                                      | \$ 2,251           | \$ 2,068      | \$ 6,503          | \$ 6,065      |
| Beef                                                         | 2,980              | 3,022         | 8,557             | 8,569         |
| Pork                                                         | 926                | 853           | 2,583             | 2,485         |
| Prepared Foods                                               | 683                | 666           | 1,991             | 2,004         |
| Other                                                        | 9                  | 9             | 27                | 32            |
| Total Sales                                                  | \$ 6,849           | \$ 6,618      | \$ 19,661         | \$ 19,155     |
| Operating Income (Loss):                                     |                    |               |                   |               |
| Chicken                                                      | \$ (44)            | \$ 95         | \$ (70)           | \$ 229        |
| Beef                                                         | 3                  | 36            | (73)              | 33            |
| Pork                                                         | 54                 | 37            | 193               | 111           |
| Prepared Foods                                               | 6                  | 26            | 58                | 77            |
| Other                                                        | 26                 | 18            | 85                | 61            |
| Total Operating Income                                       | 45                 | 212           | 193               | 511           |
| Other Expense, net                                           | 47                 | 46            | 128               | 159           |
| Income (loss) from Continuing Operations before Income Taxes | \$ (2)             | \$ 166        | \$ 65             | \$ 352        |

- a. Includes charges of \$6 million related to the impairment of unimproved real property in Memphis, Tennessee.
- b. Includes charges of \$7 million related to flood damage at our Jefferson, Wisconsin, plant.
- c. Includes gain of \$10 million related to the sale of the Gadsden, Alabama, and Ashland, Alabama, facilities.
- d. Includes charges of \$13 million related to the closing of our Wilkesboro, North Carolina, Cooked Products plant, \$6 million related to the impairment of unimproved real property in Memphis, Tennessee, and \$5 million related to software impairments.
- e. Includes charges of \$17 million related to the restructuring of our Emporia, Kansas, operation and \$8 million related to the impairment of packaging equipment.
- f. Includes charges of \$4 million related to the impairment of packaging equipment.
- g. Includes charges of \$6 million related to severance accruals, which were allocated among the segments.
- h. Includes an \$18 million non-operating gain related to the sale of an investment.
- i. Includes charges of \$6 million related to an intangible asset impairment.
- j. Includes gain of \$9 million related to a disposition of aircraft, which was allocated among the segments.

The Beef segment had sales of \$36 million and \$32 million in the third quarter of fiscal years 2008 and 2007, respectively, and sales of \$97 million and \$81 million in the nine months of fiscal years 2008 and 2007, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of \$127 million and \$137 million in the third quarter of fiscal years 2008 and 2007, respectively, and sales of \$371 million and \$392 million in the nine months of fiscal years 2008 and 2007, respectively, from transactions with other operating segments of the Company. The aforementioned sales from intersegment transactions, which were at market prices, were excluded from the segment sales in the above table.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**RESULTS OF OPERATIONS**

**Description of the Company**

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

**Overview**

**Chicken Segment** Third quarter fiscal 2008 operating results declined as compared to the third quarter of fiscal 2007 due largely to increased input costs, including increased grain costs of \$140 million, which were partially offset by increased net gains of \$59 million from our commodity risk management activities related to grain purchases and increased average sales prices, and approximately \$60 million of increased raw material, logistics and energy costs as compared to the third quarter of fiscal 2007.

**Beef Segment** Operating results declined as compared to the third quarter of fiscal 2007 due to a decline of \$95 million from our commodity risk management activities related to forward futures contracts for live cattle, excluding the related impact from the physical sale and purchase transactions. This decline included a \$75 million loss in the third quarter of fiscal 2008, compared to a \$20 million gain in the third quarter of fiscal 2007. While sales volumes were down due primarily to lower production capacity with the closure of the Emporia, Kansas, slaughter operation, operating margins improved due to an increase in average sales prices and lower average live cattle prices. Lakeside discontinued operations included pretax income of \$18 million in the third quarter of fiscal 2008, which were excluded from the Beef segment results.

**Pork Segment** Operating margins continue to be strong due to adequate hog supplies and strong domestic and export pork demand.

**Prepared Foods Segment** Sales volume for the third quarter of fiscal 2008 increased as compared to the same quarter last year; however, operating income declined due to increased raw material costs, including wheat, dairy and cooking ingredients, in addition to charges related to flood damage at our Jefferson, Wisconsin, plant.

In June 2008, we announced the acquisition of 51% ownership of Godrej Foods, Ltd., a poultry processing business in India. The joint venture, which will be called Godrej Tyson Foods, is expected to have annual sales around \$50 million and anticipates expanding operations. Godrej Foods currently sells retail fresh and further processed chicken.

In June 2008, we entered into a letter of intent to sell Lakeside Farm Industries (Lakeside), our Canadian beef operation, to XL Foods, Inc., a Canadian-owned beef processing business. Under the terms of the agreement, Tyson will sell Lakeside for \$106 million and retain the finished product inventory, accounts receivable and accounts payable of Lakeside as of the closing date. XL Foods will pay an additional amount for cattle inventory, fertilizer inventory and packaging assets, estimated to approximate \$85 million. The transaction remains subject to government approvals, receipt of commercially reasonable financing by XL Foods, Inc. and execution of a definitive agreement by the parties. The results of Lakeside are reported as discontinued operations.

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| in millions, except per share data               |     | Three Months Ended |               | Nine Months Ended |               |
|--------------------------------------------------|-----|--------------------|---------------|-------------------|---------------|
|                                                  |     | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Income (loss) from continuing operations         |     | \$ (3              | ) \$ 114      | \$ 41             | \$ 235        |
| Income (loss) from continuing operations         | EPS | (0.01              | ) 0.32        | 0.12              | 0.66          |
| Income (loss) from discontinued operations       |     | 12                 | (3 )          | (3 )              | 1             |
| Income (loss) from discontinued operations - EPS |     | 0.04               | (0.01 )       | (0.01 )           | -             |
| Net income                                       |     | 9                  | 111           | 38                | 236           |
| Net income - EPS                                 |     | 0.03               | 0.31          | 0.11              | 0.66          |

**Third quarter and nine months of fiscal 2008** Income (loss) from continuing operations includes the following items:

\$7 million charge related to flood damage at our Jefferson, Wisconsin, plant; and  
\$6 million charge related to impairment of unimproved real property in Memphis, Tennessee.

**Nine months of fiscal 2008** Income (loss) from continuing operations includes the following items:

\$17 million charge related to restructuring our Emporia, Kansas, beef operation;  
\$13 million charge related to closing our Wilkesboro, North Carolina, Cooked Products poultry plant;  
\$12 million charge related to impairment of packaging equipment;  
\$6 million of severance charges related to the FAST initiative;  
\$5 million in charges related to software impairments; and  
\$18 million non-operating gain related to sale of an investment.

**Third quarter and nine months of fiscal 2007** Income (loss) from continuing operations includes the following items:

\$10 million gain on sale of Gadsden, Alabama, and Ashland, Alabama facilities; and  
\$5 million charge related to a software impairment.

**Nine months of fiscal 2007** Income (loss) from continuing operations includes the following items:

\$9 million gain on disposition of aircraft; and  
\$6 million charge related to an intangible asset impairment.

### Outlook

**Chicken** Grain costs will continue to have a negative impact in the fourth quarter, as these costs are estimated to increase by approximately \$200 million as compared to the fourth quarter of fiscal 2007. In addition, raw material, logistics and energy costs are also expected to increase by approximately \$50 million compared to the fourth quarter of fiscal 2007. We expect the fourth quarter of fiscal 2008 will continue to be difficult, with losses likely to exceed the third quarter.

**Beef** We expect to have a favorable fourth quarter, which will be impacted positively by improving export demand. While cattle supply will experience usual seasonal declines, we still anticipate an ample supply of cattle available to run our plants efficiently.

**Pork** Operating results should continue to be strong. Sow liquidation will likely accelerate, but will not have an immediate impact on hog supplies. We expect to have a sufficient number of hogs available to run our plants efficiently in the upcoming quarters.

**Prepared Foods** We expect to have a strong fourth quarter in our pepperoni business with the tight supplies resulting from lost production due to the June floods at our Jefferson, Wisconsin, plant. We plan to resume operations in Jefferson in August 2008.

**Acquisitions** - We are working to complete one additional integrated poultry joint venture in Asia, as well as two integrated poultry transactions in Brazil. We expect to reach agreement on these transactions during fiscal 2008.

**Summary of Results****Sales**

| in millions                   | Three Months Ended |               | Nine Months Ended |               |
|-------------------------------|--------------------|---------------|-------------------|---------------|
|                               | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Sales                         | \$ 6,849           | \$ 6,618      | \$ 19,661         | \$ 19,155     |
| Change in average sales price | 2.9                | %             | 3.7               | %             |
| Change in sales volume        | 0.6                | %             | (1.0)             | )%            |
| Sales growth                  | 3.5                | %             | 2.6               | %             |

**Third quarter - Fiscal 2008 vs Fiscal 2007**

The improvement in sales was largely due to improved average sales prices, which accounted for an increase of approximately \$233 million. We had an increase in average sales prices in each of the Chicken, Beef and Pork segments. Sales volume had a minimal effect on the change in total sales, which included a decrease in Beef segment volumes, offset by increases in the Pork, Chicken and Prepared Foods segments.

**Nine months - Fiscal 2008 vs Fiscal 2007**

The improvement in sales was largely due to improved average sales prices, which accounted for an increase of approximately \$766 million. Increased average sales prices in the Chicken and Beef segments were partially offset by decreased average sales prices in the Pork segment.

Sales were negatively impacted by a decrease in sales volume, which accounted for a decrease of approximately \$260 million. This was primarily due to a decrease in Beef volume and the sale of two poultry production facilities in the third quarter fiscal 2007, partially offset by an increase in Pork volume.

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## Cost of Sales

| in millions                            | Three Months Ended |               | Nine Months Ended |               |  |   |
|----------------------------------------|--------------------|---------------|-------------------|---------------|--|---|
|                                        | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |  |   |
| Cost of sales                          | \$ 6,590           | \$ 6,190      | \$ 18,772         | \$ 18,032     |  |   |
| Gross margin                           | 3.8                | % 6.5         | % 4.5             | % 5.9         |  | % |
| Cost of sales as a percentage of sales | 96.2               | % 93.5        | % 95.5            | % 94.1        |  | % |

### Third quarter - Fiscal 2008 vs Fiscal 2007

Cost of sales increased \$400 million. Cost per pound contributed \$409 million to the increase, offset partially by a decrease in sales volume reducing cost of sales \$9 million.

Increase in grain costs in the Chicken segment of \$140 million, partially offset by increased net gains of \$59 million from our commodity risk management activities related to grain purchases. Additionally, costs were negatively impacted by an increase of approximately \$60 million in other raw material, logistics and energy costs.

Increase in realized and unrealized net losses of \$101 million from our commodity trading risk management activities related to forward futures contracts for live cattle and hog purchases, as compared to the same period last year. This amount excludes the impact from related physical purchase transactions, which will impact future period operating results.

Increase in operating costs in the Beef and Pork segments of approximately \$47 million.

Overall decrease due to sales volume included lower Beef sales volumes, offset by higher Chicken, Pork and Prepared Foods sales volumes.

### Nine months - Fiscal 2008 vs Fiscal 2007

Cost of sales increased \$740 million. Cost per pound contributed to a \$992 million increase, offset partially by a decrease in sales volume reducing cost of sales \$252 million.

Increase in grain costs in the Chicken segment of \$349 million, partially offset by increased net gains of \$49 million from our commodity risk management activities related to grain purchases. Additionally, costs were negatively impacted by an increase of approximately \$145 million in other raw material, logistics and energy costs.

Increase in average domestic live cattle costs of approximately \$87 million.

Increase in operating costs in the Beef and Pork segments of approximately \$129 million.

Decrease due to sales volume included lower Beef and Chicken sales volumes, partially offset by higher Pork sales volumes.

Decrease in average live hog costs of approximately \$197 million.

## Selling, General and Administrative

| in millions                                  | Three Months Ended |               | Nine Months Ended |               |  |   |
|----------------------------------------------|--------------------|---------------|-------------------|---------------|--|---|
|                                              | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |  |   |
| Selling, general and administrative expenses | \$ 214             | \$ 216        | \$ 660            | \$ 610        |  |   |
| As a percentage of sales                     | 3.1                | % 3.3         | % 3.4             | % 3.2         |  | % |

### Third quarter - Fiscal 2008 vs Fiscal 2007

Decrease of \$5 million due to a software impairment recorded in fiscal 2007.

Decrease of \$4 million due to a reduction in earnings-based incentive compensation.

Increase of \$9 million related to favorable investment returns on company-owned life insurance in fiscal 2007.

### Nine months - Fiscal 2008 vs Fiscal 2007

Increase of \$37 million related to advertising and sales promotions.

Increase of \$22 million related to unfavorable investment returns on company-owned life insurance.

Increase of \$9 million due to a gain recorded in fiscal 2007 on the disposition of an aircraft.

Decrease of \$9 million due to a reduction in earnings-based incentive compensation.

Decrease of \$5 million due to a software impairment recorded in fiscal 2007.



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## Other Charges

| in millions   | Three Months Ended |               | Nine Months Ended |               |
|---------------|--------------------|---------------|-------------------|---------------|
|               | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Other charges | \$ -               | \$ -          | \$ 36             | \$ 2          |

## Nine months of fiscal 2008

Includes \$17 million charge related to restructuring our Emporia, Kansas, beef operation.

Includes \$13 million charge related to closing our Wilkesboro, North Carolina, Cooked Products poultry plant.

Includes \$6 million of severance charges related to the FAST initiative.

## Interest Expense

| in millions            | Three Months Ended |               | Nine Months Ended |               |
|------------------------|--------------------|---------------|-------------------|---------------|
|                        | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Interest expense       | \$ 51              | \$ 57         | \$ 159            | \$ 176        |
| Average borrowing rate | 6.5                | % 7.3         | % 7.0             | % 7.3         |
| Change in weekly debt  | 3.2                | %             | (3.8)             | )%            |

## Other Income, net

| in millions       | Three Months Ended |               | Nine Months Ended |               |
|-------------------|--------------------|---------------|-------------------|---------------|
|                   | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Other income, net | \$ 1               | \$ 9          | \$ 24             | \$ 11         |

## Nine months of fiscal 2008

Includes \$18 million non-operating gain related to the sale of an investment.

## Effective Tax Rate

|                    | Three Months Ended |               | Nine Months Ended |               |
|--------------------|--------------------|---------------|-------------------|---------------|
|                    | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Effective tax rate | (32.6              | )%            | 31.3              | % 37.1        |
|                    |                    |               |                   | % 33.3        |
|                    |                    |               |                   | %             |

## Third quarter and nine months of fiscal 2008

The effective tax rate was impacted by:  
the Domestic Production Deduction;  
general business credits;  
amounts relating to company-owned life insurance and certain other nondeductible expense items; and  
composition of income and loss between domestic and foreign operations.

## Third quarter of fiscal 2007

The effective tax rate was impacted by:  
the Domestic Production Deduction;  
the Extraterritorial Income Exclusion;  
reversal of valuation allowances;  
general business credits; and  
certain nondeductible expense items.

## Nine months of fiscal 2007

The effective tax rate was impacted by:  
the Domestic Production Deduction;  
the Extraterritorial Income Exclusion;  
reversal of valuation allowances;  
general business credits;  
recognition of \$4 million of expired credits relating to fiscal 2006 due to retroactive extension enacted in the first quarter of fiscal 2007; and  
certain nondeductible expense items.



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## Segment Results

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

| in millions    | Sales              |               |                   |               |
|----------------|--------------------|---------------|-------------------|---------------|
|                | Three Months Ended |               | Nine Months Ended |               |
|                | June 28, 2008      | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Chicken        | \$ 2,251           | \$ 2,068      | \$ 6,503          | \$ 6,065      |
| Beef           | 2,980              | 3,022         | 8,557             | 8,569         |
| Pork           | 926                | 853           | 2,583             | 2,485         |
| Prepared Foods | 683                | 666           | 1,991             | 2,004         |
| Other          | 9                  | 9             | 27                | 32            |
| Total          | \$ 6,849           | \$ 6,618      | \$ 19,661         | \$ 19,155     |

| in millions    | Operating Income (Loss) |               |                   |               |
|----------------|-------------------------|---------------|-------------------|---------------|
|                | Three Months Ended      |               | Nine Months Ended |               |
|                | June 28, 2008           | June 30, 2007 | June 28, 2008     | June 30, 2007 |
| Chicken        | \$ (44 )                | \$ 95         | \$ (70 )          | \$ 229        |
| Beef           | 3                       | 36            | (73 )             | 33            |
| Pork           | 54                      | 37            | 193               | 111           |
| Prepared Foods | 6                       | 26            | 58                | 77            |
| Other          | 26                      | 18            | 85                | 61            |
| Total          | \$ 45                   | \$ 212        | \$ 193            | \$ 511        |

## Chicken Segment Results

| in millions             | Three Months Ended |               |           | Nine Months Ended |               |           |
|-------------------------|--------------------|---------------|-----------|-------------------|---------------|-----------|
|                         | June 28, 2008      | June 30, 2007 | Change    | June 28, 2008     | June 30, 2007 | Change    |
|                         |                    |               |           |                   |               |           |
| Sales                   | \$ 2,251           | \$ 2,068      | \$ 183    | \$ 6,503          | \$ 6,065      | \$ 438    |
| Sales Volume Change     |                    |               | 1.9 %     |                   |               | (2.6 )%   |
| Avg. Sales Price Change |                    |               | 6.9 %     |                   |               | 10.0 %    |
| Operating Income (Loss) | \$ (44 )           | \$ 95         | \$ (139 ) | \$ (70 )          | \$ 229        | \$ (299 ) |
| Operating Margin        | (2.0 )             | % 4.6         | %         | (1.1 )            | % 3.8         | %         |

## Third quarter and nine months of fiscal 2008

Includes \$6 million charge related to impairment of unimproved real property in Memphis, Tennessee.

## Third quarter and nine months of fiscal 2007

Includes \$10 million gain on sale of two poultry plants and related support facilities.

## Nine months of fiscal 2008

Includes \$13 million charge related to closing our Wilkesboro, North Carolina, Cooked Products plant.

Includes \$5 million in charges related to software impairments.

### Third quarter - Fiscal 2008 vs Fiscal 2007

Sales increased due to an increase in average sales prices, as well as an increase in sales volumes. Operating results were adversely impacted by increased grain costs of \$140 million, partially offset by net gains of \$59 million from our commodity trading risk management activities related to grain purchases. Operating results were also negatively impacted by approximately \$60 million of increased raw material, logistics and energy costs.

### Nine months - Fiscal 2008 vs Fiscal 2007

Sales increased due to an increase in average sales prices, partially offset by a decrease in sales volumes due to the sale of two poultry plants in fiscal 2007. Operating results were adversely impacted by increased grain costs of \$349 million, partially offset by net gains of \$49 million from our commodity trading risk management activities related to grain purchases. Operating results were also negatively impacted by increased selling, general and administrative expenses of \$36 million, which was primarily due to increased advertising and promotion expenses, as well as approximately \$145 million of increased raw material, logistics and energy costs.

### Beef Segment Results

in millions

|                         | Three Months Ended |                  |          | Nine Months Ended |                  |           |
|-------------------------|--------------------|------------------|----------|-------------------|------------------|-----------|
|                         | June 28,<br>2008   | June 30,<br>2007 | Change   | June 28,<br>2008  | June 30,<br>2007 | Change    |
| Sales                   | \$ 2,980           | \$ 3,022         | \$ (42 ) | \$ 8,557          | \$ 8,569         | \$ (12 )  |
| Sales Volume Change     |                    |                  | (3.9 )%  |                   |                  | (3.5 )%   |
| Avg. Sales Price Change |                    |                  | 2.6 %    |                   |                  | 3.5 %     |
| Operating Income (Loss) | \$ 3               | \$ 36            | \$ (33 ) | \$ (73 )          | \$ 33            | \$ (106 ) |
| Operating Margin        | 0.1                | % 1.2            | %        | (0.9 )%           | 0.4 %            | %         |

### Nine months of fiscal 2008

Includes \$17 million charge related to restructuring our Emporia, Kansas, operation.

Includes \$8 million charge related to impairment of packaging equipment.

### Third quarter - Fiscal 2008 vs Fiscal 2007

Sales were impacted negatively by decreased sales volumes due primarily to lower production capacity with the closure of the Emporia, Kansas, slaughter operation, partially offset by improved average sales prices. Operating results were negatively impacted by a decline of \$95 million from our commodity risk management activities related to forward futures contracts for live cattle as compared to the same period of last year. This amount excludes the impact from related physical sale and purchase transactions, which will impact future period operating results. Operating results were also negatively impacted by higher operating costs. Operating results were positively impacted by a decrease in average live prices.

### Nine months - Fiscal 2008 vs Fiscal 2007

Sales were impacted negatively by decreased sales volumes due primarily to lower production capacity with the closure of the Emporia, Kansas, slaughter operation, partially offset by improved average sales prices. Operating results were negatively impacted by higher operating costs. Operating results were also negatively impacted by a decline of \$22 million from our commodity risk management activities related to forward futures contracts for live cattle as compared to the same period of last year. This amount excludes the impact from related physical sale and purchase transactions, which will impact future period operating results. Operating results were positively impacted by an increase in average sales prices that exceeded the increase in average live prices.

## Pork Segment Results

in millions

|                         | Three Months Ended |                  |        | Nine Months Ended |                  |         |
|-------------------------|--------------------|------------------|--------|-------------------|------------------|---------|
|                         | June 28,<br>2008   | June 30,<br>2007 | Change | June 28,<br>2008  | June 30,<br>2007 | Change  |
| Sales                   | \$ 926             | \$ 853           | \$ 73  | \$ 2,583          | \$ 2,485         | \$ 98   |
| Sales Volume Change     |                    |                  | 5.8 %  |                   |                  | 7.4 %   |
| Avg. Sales Price Change |                    |                  | 2.7 %  |                   |                  | (3.2 )% |
| Operating Income        | \$ 54              | \$ 37            | \$ 17  | \$ 193            | \$ 111           | \$ 82   |
| Operating Margin        | 5.8                | % 4.3            | %      | 7.5               | % 4.5            | %       |

### Nine months of fiscal 2008

Includes \$4 million charge related to impairment of packaging equipment.

### Third quarter and nine months - Fiscal 2008 vs Fiscal 2007

Operating results were impacted positively by lower average live prices and strong export sales, which led to increased sales volumes. Operating results were positively impacted in the third quarter and nine months of fiscal 2008 by improvements of \$10 million and \$86 million, respectively, from our commodity risk management activities related to forward futures contracts for live hogs as compared to the same periods of fiscal 2007. These amounts exclude the impact from related physical sale and purchase transactions, which will impact future period operating results. This was partially offset by higher operating costs, as well as lower average sales prices in the nine months of fiscal 2008.

## Prepared Foods Segment Results

in millions

|                         | Three Months Ended |                  |          | Nine Months Ended |                  |          |
|-------------------------|--------------------|------------------|----------|-------------------|------------------|----------|
|                         | June 28,<br>2008   | June 30,<br>2007 | Change   | June 28,<br>2008  | June 30,<br>2007 | Change   |
| Sales                   | \$ 683             | \$ 666           | \$ 17    | \$ 1,991          | \$ 2,004         | \$ (13 ) |
| Sales Volume Change     |                    |                  | 4.1 %    |                   |                  | 0.8 %    |
| Avg. Sales Price Change |                    |                  | (1.6 )%  |                   |                  | (1.4 )%  |
| Operating Income        | \$ 6               | \$ 26            | \$ (20 ) | \$ 58             | \$ 77            | \$ (19 ) |
| Operating Margin        | 0.9                | % 3.9            | %        | 2.9               | % 3.8            | %        |

### Third quarter and nine months of fiscal 2008

Includes \$7 million charge related to flood damage at our Jefferson, Wisconsin, plant.

### Nine months of fiscal 2007

Includes \$6 million charge related to an intangible asset impairment.

### Third quarter and nine months - Fiscal 2008 vs Fiscal 2007

Operating results were negatively impacted by lower average sales prices and higher raw material costs, which include wheat, dairy and cooking ingredient costs, partially offset by lower pork costs.

**LIQUIDITY AND CAPITAL RESOURCES**

Our cash needs for working capital, capital expenditures and international growth are expected to be met through cash flows provided by operating activities, anticipated proceeds from the Lakeside sale, or short-term borrowings.

**Cash Flows from Operating Activities**

| in millions                                                                     | Nine Months Ended |               |
|---------------------------------------------------------------------------------|-------------------|---------------|
|                                                                                 | June 28, 2008     | June 30, 2007 |
| Net income                                                                      | \$ 38             | \$ 236        |
| Non-cash items in net income:                                                   |                   |               |
| Depreciation and amortization                                                   | 374               | 386           |
| Deferred taxes and other, net                                                   | 2                 | 25            |
| Net cash provided by operating activities before net changes in working capital | 414               | 647           |
| Net changes in working capital                                                  | (379)             | (342)         |
| Net cash provided by operating activities                                       | \$ 35             | \$ 305        |

Net cash provided by operating activities before net changes in working capital represents net income adjusted for non-cash income and expenses.

Net changes in working capital for the nine months ended:

**June 28, 2008** Net cash provided by operating activities decreased primarily due to higher inventory and accounts receivable balances, as well as change in income tax balances.

**June 30, 2007** Net cash provided by operating activities decreased primarily due to higher inventory and accounts receivable balances, as well as a decrease in interest payable.

**Cash Flows from Investing Activities**

| in millions                                             | Nine Months Ended |               |
|---------------------------------------------------------|-------------------|---------------|
|                                                         | June 28, 2008     | June 30, 2007 |
| Additions to property, plant and equipment              | \$ (330)          | ) \$ (164)    |
| Proceeds from sale of property, plant and equipment     | 23                | 65            |
| Proceeds from sale of investment                        | 22                | -             |
| Proceeds from (purchases of) marketable securities, net | (14)              | ) 2           |
| Proceeds from sale of short-term investment             | -                 | 770           |
| Other, net                                              | (16)              | ) 8           |
| Net cash provided by (used for) investing activities    | \$ (315)          | ) \$ 681      |

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

Capital spending for fiscal 2008 is expected to be approximately \$425 million.

In June 2007, we, along with Syntroleum Corporation, announced the formation of Dynamic Fuels LLC (Dynamic), a 50/50 joint venture, which will produce renewable synthetic fuels targeting the renewable diesel, jet and military fuel markets. The cost to construct the first facility is estimated to be \$150 million. In the third quarter of fiscal 2008, the Louisiana State Bond Commission approved the issuance to Dynamic of \$100 million of Gulf Opportunity Zone tax-exempt bonds made available by the Federal government to the regions affected by Hurricanes Katrina and Rita in 2005. We anticipate the bonds will be issued in late September or early October 2008. Construction is expected to begin in 2008 and continue through late 2009, with production targeted for early 2010.

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In fiscal 2007, we used proceeds from sale of short-term investment to repay our outstanding \$750 million 7.25% Notes due October 1, 2006. The short-term investment was purchased in fiscal 2006 with proceeds from issuance of \$1.0 billion of senior notes maturing on April 1, 2016 (2016 Notes).

**Cash Flows from Financing Activities**

|                                                      |                   |               |
|------------------------------------------------------|-------------------|---------------|
| in millions                                          | Nine Months Ended |               |
|                                                      | June 28, 2008     | June 30, 2007 |
| Net borrowings on revolving credit facilities        | \$ 378            | \$ 78         |
| Payments on debt                                     | (91)              | ) (1,084)     |
| Proceeds from borrowings of debt                     | 3                 | -             |
| Purchases of treasury shares                         | (25)              | ) (54)        |
| Dividends                                            | (42)              | ) (42)        |
| Increase in negative book cash balances              | 51                | 80            |
| Stock options exercised                              | 8                 | 60            |
| Other, net                                           | 4                 | (8)           |
| Net cash provided by (used for) financing activities | \$ 286            | \$ (970)      |

Net borrowings on revolving credit facilities primarily include borrowings related to the accounts receivable securitization. In fiscal 2007, we used proceeds from sale of the short-term investment to repay our outstanding \$750 million 7.25% Notes due October 1, 2006. In addition, we used cash from operations to reduce the amount outstanding under the Lakeside term loan by \$150 million and repay the outstanding \$125 million 7.45% Notes due June 1, 2007. We expect to use cash from operations or proceeds from the disposition of Lakeside to repay our short-term debt. We expect to extend the expiration date under the receivables purchase agreement expiring in August 2008.

**Liquidity**

in millions

|                                |                    | Facility | Outstanding<br>Letters of<br>Credit (no<br>draw downs) | Amount<br>Borrowed | Amount<br>Available |
|--------------------------------|--------------------|----------|--------------------------------------------------------|--------------------|---------------------|
|                                | Expiration Date    | Amount   |                                                        |                    |                     |
| Revolving credit facility      | September 2010     | \$ 1,000 | \$ 285                                                 | \$ -               | \$ 715              |
| Receivables purchase agreement | Aug 2008, Aug 2010 | 750      | -                                                      | 591                | 159                 |
| Unused borrowing capacity      |                    |          |                                                        |                    | \$ 874              |

The revolving credit facility supports our short-term funding needs and letters of credit. Letters of credit are issued primarily in support of workers' compensation insurance programs and derivative activities.

The receivables purchase agreement allows us to sell up to \$750 million of trade receivables, consisting of \$375 million expiring in August 2008 and \$375 million expiring in August 2010. We plan to extend the agreement expiring in August 2008. While we expect the new agreement will continue to provide us \$750 million of committed capacity, new terms defining eligible receivables could result in less than \$750 million being available for borrowing.

The Louisiana State Bond Commission approved the issuance to Dynamic of \$100 million of Gulf Opportunity Zone tax-exempt bonds made available by the Federal government to the regions affected by Hurricanes Katrina and Rita in 2005. We anticipate the bonds will be issued in late September or early October 2008. We agreed to issue a guarantee for the full amount of the bond issuance, which generally requires a letter of credit, in exchange for eight million Syntroleum stock warrants valued at \$0.01 each. The letter of credit will be issued when the bonds are issued, at which time we will receive the Syntroleum stock warrants. We have concluded Dynamic is a variable interest entity as defined by FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. When we issue the letter of credit to support the bond issuance, we anticipate we will become the primary beneficiary of Dynamic and will consolidate Dynamic at that time.

We hope to complete the sale of Lakeside by the end of fiscal 2008, with plans to use proceeds as available to pay down debt. Inclusive of working capital of Lakeside initially retained by us at closing, as well as consideration received from XL Foods, we expect the following future cash flows: \$56 million received at closing; approximately \$130 million within 60 days of closing; \$20 million in calendar 2009; \$49 million in notes receivable, plus interest, to be paid over two years by XL Foods; and \$30 million of XL Foods preferred stock redeemable over 5 years. The discontinuance of Lakeside's operations will not have a material affect on our future operating cash flows.

Our current ratio was 1.77 to 1 and 1.74 to 1 at June 28, 2008, and September 29, 2007, respectively.

**Capitalization**

in millions

|                              | June 28, 2008 | September 29, 2007 |
|------------------------------|---------------|--------------------|
| Debt securities              | \$ 2,400      | \$ 2,475           |
| Term loan                    | 25            | 25                 |
| Other indebtedness           | 653           | 279                |
| Total Debt                   | 3,078         | 2,779              |
| Total Equity                 | 4,775         | 4,731              |
| Debt to Capitalization Ratio | 39.2          | % 37.0 %           |

**Credit Ratings**

S&P currently rates the 2016 Notes BBB- and Moody's currently rates this debt Ba1. The pretax impact to earnings of a downgrade would be approximately \$2.4 million annually, per ratings level reduction per agency, related to increased interest expense on the 2016 Notes.

S&P's corporate credit rating for the Company is currently BBB-, with a negative rating outlook. Moody's corporate family rating for the Company is currently Ba1, with a negative rating outlook. The pretax impact to earnings of a downgrade would be approximately \$1.5 million annually, per one notch reduction per agency, excluding any increased interest expense related to the 2016 Notes.

**Debt Covenants**

Our debt covenants contain various covenants, the most restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. We were in compliance with all covenants at June 28, 2008.

**CONTRACTUAL OBLIGATIONS**

Contractual obligations at June 28, 2008, have not materially changed from the amounts disclosed in our Annual Report on Form 10-K for the year ended September 29, 2007. However, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) at the beginning of fiscal 2008. As a result of the adoption of FIN 48, we have unrecognized tax benefits of \$212 million at June 28, 2008. See Note 1, Accounting Policies in the Notes to Consolidated Condensed Financial Statements for additional information related to the adoption of FIN 48.

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

In June 2006, the FASB issued 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. We adopted FIN 48 at the beginning of fiscal 2008. See Note 1, Accounting Policies in the Notes to Consolidated Condensed Financial Statements for additional information related to the adoption of FIN 48.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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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 financial liabilities at fair value. SFAS No. 157 and SFAS No. 159 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years; therefore, we expect to adopt SFAS No. 157 and SFAS No. 159 at the beginning of fiscal 2009 for financial assets and financial liabilities. In accordance with

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FASB Staff Position 157-2, we will begin measuring the fair value of nonfinancial assets and nonfinancial liabilities at the beginning of fiscal 2010. We are in process of evaluating the potential impacts of SFAS No. 157 and SFAS No. 159.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements to establish accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements, rather than in the liability or mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The impact of SFAS No. 160 will not have a material impact on our current Consolidated Condensed Financial Statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 160 at the beginning of fiscal 2010.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of business combination. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 141R for any business combinations entered into beginning in fiscal 2010.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 establishes enhanced disclosure requirements about: 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; therefore, we expect to adopt SFAS No. 161 in the second quarter of fiscal 2009.

### 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 September 29, 2007.

While we believe we have made reasonable estimates and assumptions to calculate the fair value of the reporting units and fair value of other intangible assets, it is possible a material change could occur. If our actual results are not consistent with our estimates and assumptions used to calculate the fair value of the reporting units, we may be required to perform the second step of our goodwill impairment analysis, which could result in a material impairment.

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

Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of future economic circumstances, industry conditions in domestic and international markets, our performance and

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

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Among the factors that may cause actual results and experiences to differ from anticipated results and expectations expressed in such forward-looking statements are the following: (i) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (ii) market conditions for finished products, including competition from other global and domestic food processors, supply and pricing of competing products and alternative proteins and demand for alternative proteins; (iii) successful rationalization of existing facilities and operating efficiencies of the facilities; (iv) risks associated with our commodity trading risk management activities; (v) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vi) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an effect on livestock we own, the availability of livestock we purchase, consumer perception of certain protein products or our ability to access certain domestic and foreign markets; (vii) changes in availability and relative costs of labor and contract growers and our ability to maintain good relationships with employees, labor unions, contract growers and independent producers providing us livestock; (viii) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (ix) changes in consumer preference and diets and our ability to identify and react to consumer trends; (x) significant marketing plan changes by large customers or loss of one or more large customers; (xi) adverse results from litigation; (xii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiii) compliance with and changes to regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws and occupational, health and safety laws; (xiv) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xv) effectiveness of advertising and marketing programs; (xvi) the effect of, or changes in, general economic conditions; and (xvii) those factors listed under Item 1A. Risk Factors included in our September 29, 2007, Annual Report filed on Form 10-K.

### 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, as defined by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or 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, as defined by SFAS No. 133, is recognized immediately. Additionally, we hold certain positions, primarily in grain and livestock futures that either do not meet the criteria for hedge accounting or are not designated as hedges. These positions are marked to market, and the unrealized gains and losses are reported in earnings at each reporting date. The changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. The changes in market value of derivatives used in our risk management activities surrounding forward sales contracts are recorded in sales.

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

**Commodities Risk:** We purchase certain commodities, such as grains, livestock and natural gas in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges under SFAS No. 133 could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of June 28, 2008, and September 29, 2007, 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



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futures prices. The market risk exposure analysis includes hedge and non-hedge positions. The following sensitivity analysis reflects the impact on earnings for changes in the fair value of open positions.

| Effect of 10% change in fair value | June 28, 2008 | in millions<br>September 29, 2007 |
|------------------------------------|---------------|-----------------------------------|
| Livestock:                         |               |                                   |
| Cattle                             | \$ 57         | \$33                              |
| Hogs                               | 29            | 64                                |
| Grain                              | 29            | 9                                 |
| Natural Gas                        | -             | 2                                 |

**Interest Rate Risk:** At June 28, 2008, we had fixed-rate debt of \$2.4 billion with a weighted average interest rate of 7.5%. We have exposure to changes in interest rates on this fixed-rate debt. Market risk for fixed-rate debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately \$38 million at June 28, 2008, and \$58 million at September 29, 2007. The fair value of our debt was estimated based on quoted market prices and/or published interest rates.

At June 28, 2008, we had variable rate debt of \$654 million with a weighted average interest rate of 3.4%. A hypothetical 10% increase in interest rates effective at June 28, 2008, and September 29, 2007, would have a minimal effect on interest expense.

**Foreign Currency Risk:** We have non-cash foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates as a result of certain receivable and payable balances. The primary currency exchanges we have exposure to are the Canadian dollar, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. We periodically enter into foreign exchange forward contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at June 28, 2008, and September 29, 2007, would have a minimal effect on pretax income.

**Concentration of Credit Risk:** Refer to our market risk disclosures set forth in the 2007 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 2007 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 June 28, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the 1934 Act has been recorded, processed, summarized and reported in accordance with the rules and forms of the Securities and Exchange Commission.

In the quarter ended June 28, 2008, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Refer to the discussion 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 its subsidiaries.

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

In May 2004, representatives of our subsidiary, Tyson Fresh Meats, Inc. (TFM), met with the U.S. Environmental Protection Agency (USEPA) staff to discuss alleged wastewater and late report filing violations under the Clean Water Act relating to the 2002 Second and Final Consent Decree that governed compliance requirements for TFM's Dakota City, Nebraska, facility. During that meeting, USEPA advised TFM that the USEPA may assess stipulated penalties up to a maximum of approximately \$338,000 for those alleged violations. TFM vigorously disputes these allegations. The U.S. Department of Justice (DOJ), on behalf of USEPA, recently requested that TFM enter into a tolling agreement, which was executed in July 2008, and enter into negotiations with DOJ and USEPA regarding a potential settlement of this matter.

On January 9, 2003, we received a notice of liability letter from Union Pacific Railroad Company relating to our alleged contributions of waste oil to the Double Eagle Refinery Superfund Site in Oklahoma City, Oklahoma. On August 22, 2006, the United States and the State of Oklahoma filed a lawsuit styled United States of America, et al. v. Union Pacific Railroad Co. against Union Pacific in the U. S. District Court for the Western District of Oklahoma seeking more than \$22 million to remediate the Double Eagle site. We joined a potentially responsible parties group on October 31, 2006, which is in settlement discussions with the United States and the State of Oklahoma. We have paid \$625,586 into escrow towards the settlement of the matter. On June 20, 2008 the DOJ filed a complaint against numerous alleged responsible parties, including us. A proposed Consent Decree addressing all of our alleged liability for the site was lodged on June 24, 2008. A corrected proposed Consent Decree was lodged on June 27, 2008. The proposed Consent Decree is subject to public notice and comment and may be subject to challenge. If the proposed Consent Decree is entered, the escrowed amount will be paid to the plaintiffs.

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 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 and punitive damages, attorneys fees and disgorgement. 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 November 14, 2007, Oklahoma filed a motion under RCRA requesting a preliminary injunction to halt the land application of poultry litter in the IRW. Oklahoma's motion for a preliminary injunction asserted that bacteria from poultry litter are causing an imminent and substantial endangerment to human health and the environment throughout the IRW. A multi-week evidentiary hearing on the preliminary injunction was completed on March 6, 2008. The court has yet to issue a ruling on Oklahoma's request for a preliminary injunction. Discovery in Oklahoma's case against defendants is ongoing. Trial is currently scheduled for September 2009.

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In August 2004, we received a subpoena requesting the production of documents from a federal grand jury sitting in the Western District of Arkansas. The subpoena focused on events surrounding a workplace accident on October 10, 2003, that resulted in the death of one of our employees at the River Valley Animal Foods rendering plant in Texarkana, Arkansas. That workplace fatality had previously been the subject of an investigation by the Occupational Health and Safety Administration (OSHA) of the Department of Labor. On April 9, 2004, OSHA issued citations to us and our subsidiary Tyson Poultry, Inc., d/b/a River Valley Animal Foods, alleging violations of health and safety standards arising from the death of the employee due to hydrogen sulfide inhalation. The citations consist of five willful, 12 serious and two recordkeeping violations. OSHA seeks abatement of the alleged violations and proposed penalties of \$436,000. The OSHA proceeding was stayed pending the completion of the grand jury investigation. On July 14, 2008, we received a letter from the United States Attorney's office in the Western District of Arkansas, in which the DOJ and the DOL claimed that we willfully violated OSHA regulations resulting in the death of an employee, and that certain of our employees or agents, acting in the course of their employment, had made false statements to OSHA compliance officers. The letter also expressed concern that our agents may have withheld documents in the course of the OSHA investigation, thereby subjecting us to liability for obstruction of justice.

We currently have pending eleven separate wage and hour actions involving TFM's plants located in Lexington, Nebraska (Lopez, et al. v. Tyson Foods, Inc., District of Nebraska, June 30, 2006), Garden City and Emporia, Kansas (Garcia, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., District of Kansas, May 15, 2006), Storm Lake, Iowa (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., District of Nebraska, January 16, 2008), Madison, Nebraska (Acosta, et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., District of 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 (Salazar, et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, April 29, 2008; and Logansport, Indiana (Carter, et al. v. Tyson Foods, Inc. and Tyson Fresh Meats, Inc., N.D. Indiana, April 29, 2008); and Goodlettsville, Tennessee (Cunningham v. Tyson Fresh Meats, Inc., M.D. Tennessee, May 22, 2008). With the exception of Cunningham, the actions allege TFM failed to pay employees for all hours worked, including overtime compensation for the time it takes to change into protective work uniforms, safety equipment and other sanitary and protective clothing worn by employees, and for walking to and from the changing area, work areas and break areas in violation of the Fair Labor Standards Act and analogous state laws. The plaintiffs seek back wages, liquidated damages, pre- and post-judgment interest, attorneys' fees and costs. Cunningham alleges TFM failed to pay quality assurance technicians overtime compensation for all hours worked in excess of forty hours in each work week. TFM filed a motion for partial summary judgment in Garcia, based upon an injunction entered in Reich v. IBP, which outlined the types of activities at issue here that are compensable. The District Court of Kansas denied the motion, and TFM appealed to the Tenth Circuit Court of Appeals, arguing that the District Court's ruling had the effect of improperly modifying the injunction. On July 23, 2008, Tyson filed a motion to transfer the eleven actions to the District of Kansas for consolidated pretrial proceedings. A stay will be sought of each action above until the judicial panel on multidistrict litigation enters an order on the motion for transfer.

On April 2, 2002, four former employees of our Shelbyville, Tennessee, chicken processing plant filed a putative class action complaint styled Trollinger et al. v. Tyson Foods, Inc. in the U.S. District Court for the Eastern District of Tennessee against us alleging that we, in conjunction with employment agencies and recruiters, engaged in a scheme to hire illegal immigrant workers in 15 of its processing plants to depress wages paid to hourly wage employees at those plants in violation of the federal Racketeer Influenced and Corrupt Practices Act (RICO). On July 16, 2002, the District Court dismissed the case. Following appeal, on June 3, 2004 the Sixth Circuit Court of Appeals reversed the District Court's dismissal decision and remanded the case for further proceedings. Discovery has been on-going since September 2004. In June 2005, the plaintiffs filed a second amended complaint which included different plaintiffs, narrowed the list of plants at issue to eight and added an allegation that we conspired with certain Hispanic civil rights groups to hire illegal immigrant workers. In addition, the second amended complaint added as defendants John Tyson, Richard Bond, Greg Lee, Archibald Schaffer III, Kenneth Kimbro, Karen Percival, Tim McCoy and Ahrazue Wilt, all of whom are current or former officers or managers of the Company. On August 5, 2005, plaintiffs sought certification of a putative class of all hourly wage employees at the eight Company plants since 1998 who were legally authorized to be employed in the United States. On October 10, 2006, the District Court granted plaintiffs' motion for class certification. On October 24, 2006, defendants filed with the Sixth Circuit Court of Appeals a petition for interlocutory review of the District Court's class certification decision. On February 13, 2008, the District Court granted the Company's and the individual defendants' motions for summary judgment, dismissing the plaintiffs' claims with prejudice. The plaintiffs filed a motion for

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reconsideration on February 28, 2008, that was denied by the District Court on April 22, 2008. The plaintiffs have filed with the Sixth Circuit Court of Appeals a petition for review of the District Court's granting of our summary judgment motion.

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 were discontinued in November 2006. Although the review process is ongoing, we believe the amount of these payments is immaterial, and we do not expect any material impact to our financial statements. We have contacted the Securities and Exchange Commission and the U.S. Department of Justice to inform them of our review and preliminary findings and are cooperating fully with these governmental authorities.

We currently have pending thirteen (13) separate lawsuits alleging that Tyson falsely advertised chicken products as "raised without antibiotics" in violation of various state consumer protection statutes (*Cutsail v. Tyson*, .08CV01643 (D. Md.); *Cohen v. Tyson*, 4:08CV0366 (E.D. Ark.); *Wright v. Tyson*, 08CV3022 (D. N.J.); *Wilson v. Tyson*, 4:08CV0587 (E.D. Ark.); *Gupton v. Tyson*, 4:08CV0588 (E.D. Ark.); *Kranish v. Tyson*, 08CV01619 (D. Md.); *Latimer v. Tyson*, 4:08CV004051 (W.D. Ark.); *Zukowsky v. Tyson*, 4:08CV0584 (E.D. Ark.); *Bickerd v. Tyson*, 08CV1796 (D. Md.); *Court v. Tyson*, 08CV03592 (W.D. Wash.); *Epstein v. Tyson*, 08CV2800 (N.D. Cal.); *Johnson v. Tyson*, 08CV291 (D. Idaho); *Mize v. Tyson*, 08CV4051 (W.D. Ark.)) Plaintiffs in each of these cases seek to pursue claims on behalf of themselves and proposed classes of other similarly situated consumers. Plaintiffs in each of these cases seek compensatory and punitive damages in an unspecified amount in excess of \$5,000,000. Plaintiffs in two of these cases, *Curstail v. Tyson* and *Cohen v. Tyson*, have petitioned the Judicial Panel on Multidistrict Litigation to transfer all of these actions to a single court for consolidated or coordinated pretrial proceedings pursuant to 28 U.S.C. 1407. The Judicial Panel has not yet ruled on the MDL petitions.

**Other Matters:** We have approximately 104,000 employees and, at any time, have various employment practices matters outstanding. In the aggregate, these matters are significant, 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

The risk factors listed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K for the year ended September 29, 2007, 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. These risks are not the only risks we face. 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.

**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<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total Number of Shares<br/>Purchased as Part of<br/>Publicly Announced<br/>Plans or Programs</b> | <b>Maximum Number of<br/>Shares that May Yet<br/>Be Purchased Under the<br/>Plans or Programs (1)</b> |
|------------------------------|-----------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Mar. 30, to<br>Apr. 26, 2008 | 208,046                                             | \$17.21                                     | -                                                                                                   | 22,474,439                                                                                            |
| Apr. 27 to<br>May 31, 2008   | 195,334                                             | 18.18                                       | -                                                                                                   | 22,474,439                                                                                            |
| Jun. 1 to<br>Jun. 28, 2008   | 63,399                                              | 17.69                                       | -                                                                                                   | 22,474,439                                                                                            |
| Total                        | (2) 466,779                                         | \$17.68                                     | -                                                                                                   | 22,474,439                                                                                            |

- (1) On February 7, 2003, we announced our board of directors approved a plan to repurchase up to 25 million shares of Class A 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 466,779 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 443,409 shares purchased in open market transactions and 23,370 shares withheld to cover required tax withholdings on the vesting of restricted stock.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

The following exhibits are filed with this report.

| <u>Exhibit No.</u> | <u>Exhibit Description</u>                                                                                                                               |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1               | Executive Employment Agreement between the Company and David Van Bebber, dated May 21, 2008.                                                             |
| 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.       |

**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: August 1, 2008

/s/ Dennis Leatherby  
Dennis Leatherby  
Executive Vice President  
and Chief Financial Officer

Date: August 1, 2008

/s/ Craig J. Hart  
Craig J. Hart  
Senior Vice President, Controller and  
Chief Accounting Officer