

# TYSON FOODS INC

## FORM 10-Q (Quarterly Report)

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Address	2200 DON TYSON PARKWAY SPRINGDALE, AR 72762-6999
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**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 26, 2004**

**OR**

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

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

**0-3400**  
(Commission File Number)

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**TYSON FOODS, INC.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>71-0225165</b> (I.R.S. Employer Identification No.)
<b>2210 West Oaklawn Drive, Springdale, Arkansas</b> (Address of principal executive offices)	<b>72762-6999</b> (Zip Code)
<b>(479) 290-4000</b> (Registrant's telephone number, including area code)	

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

Indicate by a check mark whether the registrant is an accelerated filer (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 26, 2004.

<u>Class</u>	<u>Outstanding Shares</u>
Class A Common Stock, \$0.10 Par Value	251,360,294
Class B Common Stock, \$0.10 Par Value	101,625,548

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Sales	\$ 6,634	\$ 6,330	\$ 19,292	\$ 17,977
Cost of Sales	6,084	5,892	17,863	16,759
	550	438	1,429	1,218
Selling, General and Administrative	226	218	642	623
Other Charges	1	19	40	66
	323	201	747	529
Operating Income				
Other (Income) Expense:				
Interest	67	69	208	219
Other	(2)	9	4	15
	65	78	212	234
	258	123	535	295
Income before Income Taxes				
Provision for Income Taxes	97	44	198	105
Net Income	<u>\$ 161</u>	<u>\$ 79</u>	<u>\$ 337</u>	<u>\$ 190</u>
Weighted Average Shares Outstanding:				
Outstanding:				
Basic	345	345	345	346
Diluted	358	351	357	352
Earnings Per Share:				
Basic	\$ 0.46	\$ 0.23	\$ 0.97	\$ 0.55
Diluted	\$ 0.45	\$ 0.23	\$ 0.94	\$ 0.54
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 per share data)

	(Unaudited)		September 27,
	June 26, 2004		2003
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 51		\$ 25
Accounts receivable, net	1,247		1,280
Inventories	2,076		1,994
Other current assets	166		72
Total Current Assets	3,540		3,371
Net Property, Plant and Equipment	3,984		4,039
Goodwill	2,561		2,652
Intangible Assets	176		182
Other Assets	276		242
Total Assets	\$ 10,537		\$ 10,486
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities:			
Current debt	\$ 538		\$ 490
Trade accounts payable	905		838
Other current liabilities	1,188		1,147
Total Current Liabilities	2,631		2,475
Long-Term Debt	2,785		3,114
Deferred Income Taxes	682		722
Other Liabilities	183		221
Shareholders' Equity:			
Common stock (\$0.10 par value):			
Class A-authorized 900 million shares: issued 268 million and 267 million shares at June 26, 2004 and September 27, 2003, respectively	27		27
Class B-authorized 900 million shares: issued 102 million shares at June 26, 2004 and September 27, 2003	10		10
Capital in excess of par value	1,860		1,861
Retained earnings	2,676		2,380
Accumulated other comprehensive loss	(8)		(15)
	4,565		4,263
Less treasury stock, at cost- 16 million shares at June 26, 2004 and September 27, 2003	259		252
Less unamortized deferred compensation	50		57
Total Shareholders' Equity	4,256		3,954
Total Liabilities and Shareholders' Equity	\$ 10,537		\$ 10,486

See accompanying Notes to Consolidated Condensed Financial Statements.

**TYSON FOODS, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(In millions)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Cash Flows From Operating Activities:				
Net income	\$ 161	\$ 79	\$ 337	\$ 190
Depreciation and amortization	121	110	359	338
Plant closing-related charges	(1)	12	28	34
Deferred income taxes and other	25	48	(11)	48
Net changes in working capital	(61)	(120)	77	(191)
Cash Provided by Operating Activities	245	129	790	419
Cash Flows From Investing Activities:				
Additions to property, plant and equipment	(115)	(147)	(346)	(329)
Proceeds from sale of assets	7	12	20	23
Investment in marketable debt securities	(89)	-	(89)	-
Net changes in other assets and liabilities	5	(30)	(16)	7
Cash Used for Investing Activities	(192)	(165)	(431)	(299)
Cash Flows From Financing Activities:				
Net change in debt	(62)	84	(281)	3
Purchases of treasury shares	(11)	(3)	(49)	(32)
Dividends	(14)	(14)	(41)	(41)
Stock options exercised and other	15	-	37	(2)
Cash Provided by (Used for) Financing Activities	(72)	67	(334)	(72)
Effect of Exchange Rate Change on Cash	-	(2)	1	1
Increase (Decrease) in Cash and Cash Equivalents	(19)	29	26	49
Cash and Cash Equivalents at Beginning of Period	70	71	25	51
Cash and Cash Equivalents at End of Period	\$ 51	\$ 100	\$ 51	\$ 100

See accompanying Notes to Consolidated Condensed Financial Statements.

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

**Note 1: ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The consolidated condensed financial statements have been prepared by Tyson Foods, Inc. (the Company), and are unaudited, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). 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 the management of the Company believes that the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K/A for the fiscal year ended September 27, 2003. The preparation of consolidated condensed financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management believes the accompanying consolidated condensed financial statements contain all adjustments, including normal recurring accruals, adjustments related to plant closings as disclosed in note 2 and bovine spongiform encephalopathy (BSE) related charges as disclosed in note 3, necessary to present fairly the financial position as of June 26, 2004, and the results of operations and cash flows for the three and nine months ended June 26, 2004 and June 28, 2003. The results of operations and cash flows for the three and nine months ended June 26, 2004 and June 28, 2003 are not necessarily indicative of the results to be expected for the full year.

**STOCK OPTIONS**

On December 29, 2002, the Company adopted Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148, which amended FASB Statement No. 123, "Accounting for Stock-Based Compensation," does not require use of the fair value method of accounting for stock-based employee compensation. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its employee stock option plans. Accordingly, no compensation expense was recognized for its stock option plans. Had compensation expense for the employee stock option plans been determined based on the fair value method of accounting for the Company's stock option plans, the tax-effected impact would be as follows (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Net income as reported	\$ 161	\$ 79	\$ 337	\$ 190
Stock-based employee compensation expense included in net income, net of tax	4	4	12	11
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(5)	(5)	(16)	(14)
Pro forma net income	<u>\$ 160</u>	<u>\$ 78</u>	<u>\$ 333</u>	<u>\$ 187</u>
Earnings per share				
As reported				
Basic	\$ 0.46	\$ 0.23	\$ 0.97	\$ 0.55
Diluted	0.45	0.23	0.94	0.54
Pro forma				
Basic	0.46	0.23	0.96	0.54
Diluted	0.44	0.22	0.93	0.53

INVESTMENTS

During the third quarter of fiscal 2004, the Company purchased marketable debt securities. The Company has applied Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), and has determined that all of its marketable debt securities are to be classified as available-for-sale investments. These investments are reported at fair value as of the balance sheet date, with unrealized gains and losses, net of tax, recorded in other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization will be recorded in interest income. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of debt securities and declines in value judged to be other than temporary are recorded in other income, net. Interest and dividends on securities classified as available-for-sale will be recorded in interest income.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share." This issue involves the computation of earnings per share for companies that have multiple classes of common stock or have issued securities other than common stock that participate in dividends with common stock (participating securities). The EITF concluded that companies having participating securities are required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period. This issue is effective for fiscal periods beginning after March 31, 2004. The following represents the effect on earnings per share had the Company early adopted the issue.

	Three Months Ended		Nine Months Ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
Earnings per share as reported				
Basic	\$ 0.46	\$ 0.23	\$ 0.97	\$ 0.55
Diluted	0.45	0.23	0.94	0.54
Earnings per share as calculated under EITF Issue 03-6				
Class A Common Shares				
Basic	0.48	0.24	1.00	0.56
Diluted	0.45	0.23	0.94	0.54
Class B Common Shares				
Basic	0.43	0.21	0.90	0.51
Diluted	0.42	0.21	0.88	0.50

In December 2003, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). The revision of SFAS No. 132 requires expanded disclosures for defined benefit plans. The standard's revisions are effective for fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. The Company's adoption of the revised SFAS No. 132 did not have a material impact on its financial position or results of operations.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed. The Act allows a possible subsidy to retirement health plan sponsors to help offset the costs of participant prescription drug benefits. In March 2004, the FASB issued Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Act" (the Position). The Position is effective for interim or annual periods beginning after June 15, 2004. The Position allows plan sponsors to recognize or defer recognizing the effects of the Act in its financial statements. Specific accounting guidance for this federal subsidy is pending and, when issued, could require the Company to change previously reported information. The Company's accumulated postretirement benefit obligation and net periodic pension cost do not reflect the effects of the Act. The Company has elected to defer accounting for the Act and has estimated any future effect on its consolidated financial statements will not be material.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities (VIE) in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Previously, entities were generally consolidated by an enterprise that had a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB issued a revision of the Interpretation (the Revised Interpretation 46). Revised Interpretation 46 codifies both the proposed modifications and other decisions previously issued through certain FASB Staff Positions and supersedes the original Interpretation to include: (1) deferring the effective date of the Interpretation's provisions for certain variable interests, (2) providing additional scope exceptions for certain other variable interests, (3) clarifying the impact of troubled debt restructurings on the requirement to reconsider (a) whether an entity is a VIE or (b) which party is the primary beneficiary of a VIE, and (4) revising Appendix B of the original Interpretation to provide additional guidance on what constitutes a variable interest. Under the new guidance, application of the Revised Interpretation 46 is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for

all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. The Company's adoption of Revised Interpretation 46 did not have a material impact on its financial position or results of operations.

**Note 2: OTHER CHARGES**

In February 2004, the Company announced its decision to consolidate its manufacturing operations in Jackson, Mississippi, into the Company's Carthage, Mississippi, facility. The Company acquired the Carthage facility when it purchased Choctaw Maid Farms in the fourth quarter of fiscal 2003 and, since that time, performed a comprehensive analysis of all operations in the area and determined this consolidation would most effectively maintain the Company's competitiveness in its Mississippi operations. The Jackson location employs approximately 800 people and is a poultry processing facility, including processing and de-boning operations. As a result of this decision, the Company has recorded total costs of approximately \$9 million (\$8 million in the second quarter of fiscal 2004 and \$1 million in the third quarter of fiscal 2004) that includes approximately \$8 million of estimated impairment charges for assets to be disposed of and \$1 million of employee termination benefits. The Company is accounting for the closing of the Jackson operation in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146) and Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). This amount is reflected in the Chicken segment as a reduction of operating income and included in the consolidated statements of income in other charges. The Jackson location will cease operations by the end of August 2004. As of June 26, 2004, no significant amounts had been paid and charged against the accrual. No material adjustments to the total accrual are anticipated at this time.

In December 2003, the Company announced its decision to close its Manchester, New Hampshire, and Augusta, Maine, Prepared Foods operations to further improve long-term manufacturing efficiencies. The Manchester operation employed approximately 550 people and primarily produced sandwich meat for foodservice customers. The Augusta facility employed approximately 170 people and produced hot dogs, sausages, boneless hams and deli turkey products. These locations ceased operations during the second quarter of fiscal 2004. As a result of this decision, the Company recorded total costs of \$24 million (\$21 million in the first quarter of fiscal 2004 and \$3 million in the second quarter of fiscal 2004) that included \$4 million of costs related to closing the plants and \$20 million of estimated impairment charges for assets to be disposed. These amounts are reflected in the Prepared Foods segment as a reduction of operating income and included in the consolidated statements of income in other charges. The costs related to closing the plants include \$2 million of employee termination benefits and \$2 million of other plant closing related costs. The Company is accounting for the closing of the Manchester and Augusta operations in accordance with SFAS No. 146 and SFAS No. 144. At June 26, 2004, the accrual balance was \$3 million, as \$17 million in losses related to the disposal of assets have been realized, \$2 million related to employee termination benefits have been paid and \$2 million of other plant closing related costs have been paid. No material adjustments to the total accrual are anticipated at this time.

In April 2003, the Company announced its decision to close its Berlin, Maryland, poultry operation. The Berlin poultry operation employed approximately 650 people and included a hatchery, a feed mill, live production and a processing facility. The facility ceased processing chickens November 12, 2003. As a result of this decision, the Company recorded total costs of \$29 million (\$4 million in the first quarter of fiscal 2004 and \$25 million in fiscal 2003) that included \$14 million related to closing the plant and \$15 million of estimated impairment charges for assets to be disposed. These amounts are reflected in the Chicken segment as a reduction of operating income and included in the consolidated statements of income in other charges. The costs related to closing the plant include \$9

million for estimated liabilities for the resolution of the Company's obligations under 209 grower contracts, and \$5 million of other related costs associated with the closing of the operation including plant clean-up costs and employee termination benefits. The Company is accounting for the closing of the Berlin operation in accordance with SFAS No. 146 and SFAS No. 144. At June 26, 2004, the accrual balance was \$3 million, as \$9 million of obligations under grower contracts and \$3 million of other closing costs had been paid, and losses related to the disposal of assets of \$14 million were realized. No material adjustments to the total accrual are anticipated at this time.

In the first quarter of fiscal 2003, the Company recorded \$47 million of costs related to the closing of its Stilwell, Oklahoma, and Jacksonville, Florida, plants that included \$26 million of costs related to closing the plants and \$21 million of estimated impairment charges for assets to be disposed. The costs related to closing the plants include \$17 million for estimated liabilities for the resolution of the Company's obligations under grower contracts, and \$9 million of other related costs associated with the closing of the plants including plant clean-up costs and employee termination benefits. The Company accounted for the closing of the Stilwell, Oklahoma and Jacksonville, Florida operations in accordance with Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" (EITF 94-3) and SFAS No. 144. The costs are reflected in the Chicken segment as a reduction of operating income and included in the consolidated statements of income in other charges. As of June 26, 2004, payments related to closing the plants have been made and losses related to the disposal of assets have been realized, thus fully utilizing the accrual balance. No material adjustments to the total accrual are anticipated at this time.

In the fourth quarter of fiscal 2002, the Company recorded \$26 million of costs related to the restructuring of its live swine operations that consists of \$21 million of estimated liabilities for resolution of Company obligations under producer contracts and \$5 million of other related costs associated with this restructuring, including lagoon and pit closure costs and employee termination benefits. At June 26, 2004, the remaining accrual balance was \$12 million, as \$6 million of obligations under grower contracts and \$8 million of other related costs had been paid. The Company is accounting for the restructuring of its live swine operations in accordance with EITF 94-3 and Financial Accounting Standards No 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," thus the total accrual of \$26 million was recorded in the fourth quarter of fiscal year 2002 and there was no effect on the Company's results of operations in fiscal years 2004 and 2003. No material adjustments to the total accrual are anticipated at this time.

**Note 3: BSE-RELATED CHARGES**

On December 23, 2003, the United States Department of Agriculture (USDA) announced that a single case of BSE had been diagnosed in a Washington State dairy cow. The effect on the Company's Beef segment caused by that announcement along with the decision of various countries to restrict imports of U.S. beef products resulted in the Company recording BSE-related pretax charges of approximately \$61 million in the first quarter of fiscal 2004. These charges were included in costs of sales and primarily related to the decline in value of finished product inventory destined for international markets, whether in-transit, located at the shipping ports, or located within domestic storage, as well as live cattle inventory and open futures positions. No material adjustments were made in the second or third quarters to the BSE-related accruals recorded in the first quarter of fiscal 2004 and none are anticipated in future quarters.

**Note 4: FINANCIAL INSTRUMENTS**

The Company purchases certain commodities in the course of normal operations such as corn, soybeans, livestock and natural gas. As part of the Company's on-going commodity risk management activities, the Company uses derivative financial instruments, primarily futures, options and swaps, to reduce its exposure to various market

risks related to these purchases. Generally, 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 that are designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. If a derivative instrument is a hedge, as defined by SFAS 133, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings as a component of cost of sales.

Additionally, the Company holds positions as part of its risk management activities, primarily certain grain and livestock futures and options, for which it does not apply SFAS 133 hedge accounting, but instead marks these positions to fair value through earnings at each reporting date. Changes in market value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. Changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales. The Company generally does not hedge anticipated transactions beyond 12 months.

The Company had derivative unrealized gains of \$88 million and \$20 million in other current assets at June 26, 2004, and September 27, 2003, respectively, and derivative unrealized losses of \$75 million and \$37 million in other current liabilities at June 26, 2004, and September 27, 2003, respectively.

Derivative products related to grain procurement, such as futures and option contracts that meet the criteria for SFAS 133 hedge accounting, are considered cash flow hedges, as they hedge against changes in the amount of future cash flows related to commodities procurement. As described above, the effective portion of the cumulative gain or loss on the derivative instrument is reported as a component of other comprehensive income in shareholders' equity and recognized into cost of sales in the same period or periods during which the hedged transaction affects earnings (for commodity grain hedges, this occurs when the chickens that consumed the hedged grain are sold). The Company applies SFAS 133 hedge accounting to derivative products related to grain procurement that are hedging physical grain contracts that have previously been purchased. The Company does not purchase derivative products related to grain procurement in excess of its physical grain consumption requirements.

Based on the Company's evaluation of the grain markets, the Company has at times entered into a portion of its derivative products related to grain procurement prior to purchasing the physical grain contracts. The Company has not applied SFAS 133 hedge accounting treatment for these derivative positions. In connection with these risk management activities, the Company recognized pretax net gains of approximately \$4 million and \$107 million in cost of sales for the three and nine months ended June 26, 2004. The year-to-date derivative gains were due primarily to the increase in grain futures prices during the second fiscal quarter and the Company having a higher number of derivative positions in place as compared to the same period in the prior year. The comparable amounts recorded during the three and nine month periods of the prior year were \$0 and a loss of \$3 million.

The Company has recorded in other comprehensive income after tax net losses of approximately \$7 million and after tax net gains of approximately \$38 million for the three and nine months ended June 26, 2004, respectively, related to cash flow hedges of grain purchases. For the three months and nine months ended June 26, 2004, the Company has recognized into cost of sales, and out of other comprehensive income, \$26 million of after tax gains to match with the timing of the hedged transactions effect

on income. The remaining balance of grain derivative other comprehensive income of \$12 million includes approximately \$3 million of losses which reflect the Company's current mark-to-market of open SFAS 133 hedge positions as of June 26, 2004. The Company expects that these amounts will be recognized into cost of sales within the next 12 months.

The Company enters into certain forward sales of boxed beef at fixed prices and has positions in live cattle futures to mitigate the market risk associated with these fixed price forward sales. The fixed price sales contract locks in the proceeds from a sale in the future, although, the cost of the live cattle and the related boxed beef market price at the time of the sale will vary from this fixed price, creating market risk. Therefore, as fixed forward sales are entered into, the Company also enters into the appropriate number of live cattle futures positions. The Company believes this is an effective economic hedge; however, the correlation does not qualify for SFAS 133 hedge accounting. Consequently, changes in market value of the open live cattle futures positions are marked to market and reported in earnings at each reporting date even though the economic impact of the Company's fixed sales price being above or below the market price is only realized at the time of sale. In connection with these live cattle futures, the Company has unrealized pretax gains on open mark-to-market futures positions of approximately \$44 million as of June 26, 2004, and \$4 million as of June 28, 2003.

**Note 5: INVENTORIES**

Processed products, livestock (excluding breeders) and supplies and other are valued at the lower of cost (first-in, first-out) or market. Livestock includes live cattle, live chicken and live swine. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, contract grower pay and catch and haul costs), labor and manufacturing and production overhead which are related to the purchase and production of inventories. Live chicken consists of broilers and breeders. Breeders are stated at cost less amortization. The costs associated with breeders, including breeder chicks, feed and medicine, are accumulated up to the production stage and amortized to broiler inventory over the productive life of the flock using a standard unit of production. Total inventory consists of the following (in millions):

	June 26, 2004	September 27, 2003
Processed products	\$ 1,200	\$ 1,167
Livestock	564	532
Supplies and other	312	295
Total inventory	<u>\$ 2,076</u>	<u>\$ 1,994</u>

**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 26, 2004	September 27, 2003
Land	\$ 112	\$ 113
Buildings and leasehold improvements	2,311	2,293
Machinery and equipment	3,988	3,886
Land improvements and other	191	184
Buildings and equipment under construction	225	177
	<u>6,827</u>	<u>6,653</u>
Less accumulated depreciation	2,843	2,614
Net property, plant and equipment	<u>\$ 3,984</u>	<u>\$ 4,039</u>

**Note 7: OTHER CURRENT LIABILITIES**

Other current liabilities are as follows (in millions):

	June 26, 2004	September 27, 2003
Accrued salaries, wages and benefits	\$ 300	\$ 263
Self insurance reserves	250	243
Income taxes payable	232	244
Other	406	397
Total other current liabilities	<u>\$ 1,188</u>	<u>\$ 1,147</u>

**Note 8: LONG-TERM DEBT**

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

	Maturity	June 26, 2004	September 27, 2003
Commercial paper (1.38% effective rate at 9/27/03)	2004	\$ -	\$ 32
Revolving Credit Facilities	2006-2009	-	-
Senior notes and Notes (rates ranging from 6.13% to 8.25%)	2004-2028	3,166	3,316
Accounts Receivable Securitization	2004, 2005	-	-
Institutional notes (10.84% effective rate at 6/26/04 and 9/27/03)	2004-2006	30	40
Leveraged equipment loans (rates ranging from 4.67% to 5.99%)	2005-2008	95	111
Other	Various	32	105
Total debt		<u>3,323</u>	<u>3,604</u>
Less current debt		<u>538</u>	<u>490</u>
Total long-term debt		<u>\$ 2,785</u>	<u>\$ 3,114</u>

The revolving credit agreements, senior notes, notes and accounts receivable securitization debt contain various covenants, the more restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. The Company was in compliance with these covenants at June 26, 2004.

The Company has unsecured revolving credit facilities totaling \$1 billion that support the Company's commercial paper program, letters of credit and other short-term funding needs. During the third quarter of fiscal 2004, the Company restructured and extended its revolving credit facilities. These facilities now consist of \$250 million that expire in September 2006 and \$750 million that expire in June 2009. At June 26, 2004, and September 27, 2003, there were no amounts drawn under the revolving credit facilities.

The Company has a receivables purchase agreement with three co-purchasers to sell up to \$750 million of trade receivables that consists of \$375 million expiring in August 2004 and \$375 million expiring in August 2005. Under this agreement, substantially all of the Company's accounts receivable may be sold to a special purpose entity, Tyson Receivables Corporation (TRC), which is a wholly-owned consolidated subsidiary of the Company. TRC has its own separate creditors that are 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 26, 2004, and September 27, 2003, there were no amounts drawn under the receivables purchase agreement. The Company plans to renew the receivables purchase agreement that matures in August 2004.

The Company guarantees 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 range from one to eleven years and the maximum potential amount of future payments as of June 26, 2004, was \$55 million. The Company also maintains operating leases for various types of equipment, some of which contain residual value guarantees for the market value for assets at the end of the term of the lease. The terms of the lease maturities range from one to six years. The maximum potential amount of the residual value guarantees is approximately \$108 million, of which, approximately \$27 million would be recoverable through various recourse provisions and an undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of payments under these guarantees is not considered to be probable. At June 26, 2004, no liabilities for guarantees were recorded.

The Company has fully and unconditionally guaranteed \$476 million of senior notes issued by Tyson Fresh Meats, Inc. (TFM; formerly known as IBP, inc.), a wholly-owned subsidiary of the Company.

The following condensed consolidating financial information is provided for the Company, as guarantor, and for TFM, as issuer, as an alternative to providing separate financial statements for the issuer.

**Condensed Consolidating Statement of Income** (unaudited) for the three months ended June 26, 2004

	(in millions)			
	Tyson	TFM	Adjustments	Consolidated
Sales	\$ 2,327	\$ 4,311	\$ (4)	\$ 6,634
Cost of Sales	2,021	4,067	(4)	6,084
	306	244		550
Selling, General and Administrative	140	86		226
Other Charges	1	-		1
Operating Income	165	158		323
Interest and Other Expense	58	7		65
Income Before Income Taxes	107	151		258
Provision for Income Taxes	40	57		97
Net Income	<u>\$ 67</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 161</u>

**Condensed Consolidating Statement of Income** (unaudited) for the three months ended June 28, 2003

	(in millions)			
	Tyson	TFM	Adjustments	Consolidated
Sales	\$ 2,039	\$ 4,291	\$ -	\$ 6,330
Cost of Sales	1,785	4,107		5,892
	254	184		438
Selling, General and Administrative	138	80		218
Other Charges	19	-		19
Operating Income	97	104		201
Interest and Other Expense	60	18		78
Income Before Income Taxes	37	86		123
Provision for Income Taxes	18	26		44
Net Income	<u>\$ 19</u>	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ 79</u>

**Condensed Consolidating Statement of Income (unaudited) for the nine months ended June 26, 2004**

	(in millions)			
	Tyson	TFM	Adjustments	Consolidated
Sales	\$ 6,702	\$ 12,602	\$ (12)	\$ 19,292
Cost of Sales	5,767	12,108	(12)	17,863
	935	494	-	1,429
Selling, General and Administrative	399	243		642
Other Charges	16	24		40
Operating Income	520	227		747
Interest and Other Expense	179	33		212
Income Before Income Taxes	341	194		535
Provision for Income Taxes	126	72		198
Net Income	<u>\$ 215</u>	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ 337</u>

**Condensed Consolidating Statement of Income (unaudited) for the nine months ended June 28, 2003**

	(in millions)			
	Tyson	TFM	Adjustments	Consolidated
Sales	\$ 6,006	\$ 11,989	\$ (18)	\$ 17,977
Cost of Sales	5,261	11,516	(18)	16,759
	745	473	-	1,218
Selling, General and Administrative	389	234		623
Other Charges	66	-		66
Operating Income	290	239		529
Interest and Other Expense	177	57		234
Income Before Income Taxes	113	182		295
Provision for Income Taxes	45	60		105
Net Income	<u>\$ 68</u>	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ 190</u>