

TYSON FOODS INC

FORM 10-Q (Quarterly Report)

Filed 02/03/03 for the Period Ending 12/28/02

| | |
|-------------|---|
| Address | 2200 DON TYSON PARKWAY SPRINGDALE, AR 72762-6999 |
| Telephone | 479-290-4000 |
| CIK | 0000100493 |
| Symbol | TSN |
| SIC Code | 2015 - Poultry Slaughtering and Processing |
| Industry | Food Processing |
| Sector | Consumer/Non-Cyclical |
| Fiscal Year | 09/30 |

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

FORM 10-Q

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

For the quarterly period ended December 28, 2002

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)

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 to such filing requirements for the past 90 days. Yes [] No []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 28, 2002.

| <u>Class</u> | <u>Outstanding Shares</u> |
|--|---------------------------|
| Class A Common Stock, \$0.10 Par Value | 250,006,502 |
| Class B Common Stock, \$0.10 Par Value | 101,636,348 |

TYSON FOODS, INC.

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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 | |
|--------------------------------------|----------------------|----------------------|
| | December 28, 2002 | December 29, 2001 |
| Sales | \$ 5,802 | \$ 5,865 |
| Cost of Sales | 5,402 | 5,355 |
| | 400 | 510 |
| Selling, General and Administrative | 208 | 237 |
| Other Charges | 47 | - |
| Operating Income | 145 | 273 |
| Other Expense: | | |
| Interest | 79 | 79 |
| Other | 5 | - |
| | 84 | 79 |
| Income Before Income Taxes | 61 | 194 |
| Provision for Income Taxes | 22 | 67 |
| Net Income | \$ 39 | \$ 127 |
| Weighted Average Shares Outstanding: | | |
| Basic | 347 | 348 |
| Diluted | 354 | 355 |
| Earnings Per Share: | | |
| Basic | \$ 0.11 | \$ 0.36 |
| Diluted | \$ 0.11 | \$ 0.36 |
| Cash Dividends Per Share: | | |
| Class A | \$ 0.040 | \$ 0.040 |
| Class B | \$ 0.036 | \$ 0.036 |

See accompanying notes.

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

| | (Unaudited) | |
|---------------|----------------------|-----------------------|
| | December 28, 2002 | September 28, 2002 |
| Assets | | |

| | | |
|--|-----------|-----------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 76 | \$ 51 |
| Accounts receivable, net | 1,257 | 1,101 |
| Inventories | 1,876 | 1,885 |
| Other current assets | 137 | 107 |
| | <hr/> | <hr/> |
| Total Current Assets | 3,346 | 3,144 |
| Net Property, Plant and Equipment | 4,020 | 4,038 |
| Goodwill | 2,633 | 2,633 |
| Other Assets | 544 | 557 |
| | <hr/> | <hr/> |
| Total Assets | \$ 10,543 | \$ 10,372 |
| | <hr/> | <hr/> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current debt | \$ 276 | \$ 254 |
| Trade accounts payable | 806 | 755 |
| Other current liabilities | 1,100 | 1,084 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 2,182 | 2,093 |
| Long-Term Debt | 3,797 | 3,733 |
| Deferred Income Taxes | 641 | 643 |
| Other Liabilities | 246 | 241 |
| Shareholders' Equity: | | |
| Common stock (\$0.10 par value): | | |
| Class A-authorized 900 million shares: | | |
| issued 267 million shares at December 28, 2002 | 27 | 27 |
| and September 28, 2002 | | |
| Class B-authorized 900 million shares: | | |
| issued 102 million shares at December 28, 2002 | 10 | 10 |
| and September 28, 2002 | | |
| Capital in excess of par value | 1,878 | 1,879 |
| Retained earnings | 2,123 | 2,097 |
| Accumulated other comprehensive loss | (48) | (49) |
| | <hr/> | <hr/> |
| | 3,990 | 3,964 |
| Less treasury stock, at cost- | 279 | 265 |
| 18 million shares at December 28, 2002 | | |
| and 16 million shares at September 28, 2002 | | |
| Less unamortized deferred compensation | 34 | 37 |
| | <hr/> | <hr/> |
| Total Shareholders' Equity | 3,677 | 3,662 |
| | <hr/> | <hr/> |
| Total Liabilities and Shareholders' Equity | \$ 10,543 | \$ 10,372 |
| | <hr/> | <hr/> |

See accompanying notes.

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2002 | December 29, 2001 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 39 | \$ 127 |
| Depreciation and amortization | 116 | 117 |
| Plant closing-related charges | 45 | - |
| Deferred income taxes and other | (31) | 60 |
| Net changes in working capital | (124) | 203 |
| Cash Provided by Operating Activities | 45 | 507 |
| Cash Flows From Investing Activities: | | |
| Additions to property, plant and equipment | (100) | (108) |
| Proceeds from sale of assets | 7 | - |
| Net change in investment in commercial paper | - | 94 |
| Net change in other assets and liabilities | 11 | (23) |
| Cash Used for Investing Activities | (82) | (37) |
| Cash Flows From Financing Activities: | | |
| Net change in debt | 86 | (428) |
| Purchase of treasury shares | (15) | (6) |
| Dividends and other | (15) | (13) |
| Cash Provided by (Used for) Financing Activities | 56 | (447) |
| Effect of Exchange Rate Change on Cash | 6 | (1) |
| Increase in Cash and Cash Equivalents | 25 | 22 |
| Cash and Cash Equivalents at Beginning of Period | 51 | 70 |
| Cash and Cash Equivalents at End of Period | \$ 76 | \$ 92 |

See accompanying notes.

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), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. 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 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 for the fiscal year ended September 28, 2002. 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, consisting of normal recurring accruals, necessary to present fairly the financial position as of December 28, 2002 and September 28, 2002, and the results of operations and cash flows for the three months ended December 28, 2002 and December 29, 2001. The results of operations and cash flows for the three months ended December 28, 2002 and December 29, 2001 are not necessarily indicative of the results to be expected for the full year.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." Although it does not require use of fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure provisions of Statement 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148's amendment of the transition and annual disclosure requirements are effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of Opinion No. 28 are effective for interim periods beginning after December 15, 2002. The Company will adopt this standard for its second quarter of fiscal year 2003. Unless the company elects to adopt the fair value recognition provisions of SFAS 123, adoption of SAS 148 will only require expanded disclosure to include the effect of stock-based compensation in interim reporting.

RECLASSIFICATIONS

Certain reclassifications have been made to prior periods to conform to current presentations.

Note 2: OTHER CHARGES

In December 2002, the Company announced its intentions to close two poultry operations as part of its on-going plant rationalization efforts. Included in Other Charges on the consolidated condensed statement of income is an accrual of \$47 million, reflecting estimated costs associated with this decision.

Note 3: INVENTORIES

Processed products, livestock (excluding breeders) and supplies and other are valued at the lower of cost (first-in, first-out) or market. Breeders are stated at cost less amortization. Livestock includes live cattle, live chicken and live swine. Live chicken consists of broilers and breeders. Total inventory consists of the following (in millions):

| | December 28, 2002 | September 28, 2002 |
|--------------------|----------------------|-----------------------|
| Processed products | \$ 1,067 | \$ 1,112 |
| Livestock | 525 | 505 |
| Supplies and other | 284 | 268 |
| Total inventory | <u>\$ 1,876</u> | <u>\$ 1,885</u> |

Note 4: PROPERTY, PLANT AND EQUIPMENT

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

| December 28, | September 28, |
|--------------|---------------|
|--------------|---------------|

| | 2002 | 2002 |
|--|-----------------|-----------------|
| Land | \$ 112 | \$ 111 |
| Buildings and leasehold improvements | 2,187 | 2,154 |
| Machinery and equipment | 3,552 | 3,419 |
| Land improvements and other | 187 | 185 |
| Buildings and equipment under construction | 330 | 414 |
| | 6,368 | 6,283 |
| Less accumulated depreciation | 2,348 | 2,245 |
| Net property, plant and equipment | <u>\$ 4,020</u> | <u>\$ 4,038</u> |

Note 5: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

| | December 28, 2002 | September 28, 2002 |
|--------------------------------------|----------------------|-----------------------|
| Accrued salaries, wages and benefits | \$ 266 | \$ 308 |
| Self insurance reserves | 228 | 225 |
| Income taxes payable | 234 | 202 |
| Property and other taxes | 69 | 52 |
| Other | 303 | 297 |
| Total other current liabilities | <u>\$ 1,100</u> | <u>\$ 1,084</u> |

Note 6: LONG-TERM DEBT

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

| | Maturity | December 28, 2002 | September 28, 2002 |
|--|---------------------|----------------------|-----------------------|
| Commercial paper (2.00% effective rate at 12/28/02 and 2.17% effective rate at 9/28/02) | 2002 2003, 2005, | \$ 179 | \$ 24 |
| Revolver | 2006 | - | - |
| Senior notes and Notes (rates ranging from 6% to 8.25%) | 2002-2028 | 3,509 | 3,607 |
| Accounts Receivable Securitization Debt (2.20% effective rate at 12/28/02 and 2.35% effective rate at 9/28/02) | 2002 | 135 | 75 |
| Institutional notes (10.84% effective rate at 12/28/02 and 9/28/02) | 2002-2006 | 40 | 50 |
| Leveraged equipment loans | | | |

| | | | |
|-----------------------------------|-----------|----------|----------|
| (rates ranging from 4.7% to 6.0%) | 2005-2008 | 119 | 124 |
| Other | Various | 91 | 107 |
| | | <hr/> | <hr/> |
| Total debt | | 4,073 | 3,987 |
| Less current debt | | 276 | 254 |
| | | <hr/> | <hr/> |
| Total long-term debt | | \$ 3,797 | \$ 3,733 |
| | | <hr/> | <hr/> |

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 is in compliance with these covenants at December 28, 2002.

In October 2001, the Company entered into a receivables purchase agreement with three co-purchasers to sell up to \$750 million of trade receivables. The receivables purchase agreement has been accounted for as a borrowing and has an interest rate based on commercial paper issued by the co-purchasers. Under this agreement, substantially all of the Company's accounts receivable are sold to a special purpose entity, Tyson Receivables Corporation (TRC), which is a wholly owned consolidated subsidiary of the Company. TRC has its own separate creditors that are entitled to be satisfied out of all of the assets of TRC prior to any value becoming available to TRC's equity holders

The Company guarantees debt of outside third parties, which involve certain bank term loans, letters of credit, and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt range from one to 12 years and the maximum potential amount of future payments as of December 28, 2002, was approximately \$90 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 guarantee is approximately \$96 million, of which, approximately \$24 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 and accordingly, no liabilities have been recorded.

The Company has fully and unconditionally guaranteed \$542 million of senior notes issued by IBP, a wholly owned subsidiary of the Company.

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

Condensed Consolidating Statement of Income (unaudited) for the three months ended December 28, 2002

| | (in millions) | | | |
|-------------------------------------|---------------|----------|-------------|--------------|
| | Tyson | IBP | Adjustments | Consolidated |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Sales | \$ 1,977 | \$ 3,840 | \$ (15) | \$ 5,802 |
| Cost of Sales | 1,759 | 3,658 | (15) | 5,402 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 218 | 182 | | 400 |
| Selling, General and Administrative | 128 | 80 | | 208 |
| Other Charges | 47 | - | | 47 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Operating Income | 43 | 102 | | 145 |
| Interest and Other Expense | 64 | 20 | | 84 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Income Before Income Taxes | (21) | 82 | | 61 |
| Provision for Income Taxes | (8) | 30 | | 22 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Income | \$ (13) | \$ 52 | \$ - | \$ 39 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Condensed Consolidating Statement of Income (unaudited) for the three months ended December 29, 2001

(in millions)

| | Tyson | IBP | Adjustments | Consolidated |
|-------------------------------------|----------|----------|-------------|--------------|
| Sales | \$ 1,892 | \$ 3,981 | \$ (8) | \$ 5,865 |
| Cost of Sales | 1,621 | 3,742 | (8) | 5,355 |
| | 271 | 239 | | 510 |
| Selling, General and Administrative | 131 | 106 | | 237 |
| Operating Income | 140 | 133 | | 273 |
| Interest and Other Expense | 58 | 21 | | 79 |
| Income Before Income Taxes | 82 | 112 | | 194 |
| Provision for Income Taxes | 25 | 42 | | 67 |
| Net Income | \$ 57 | \$ 70 | \$ - | \$ 127 |

Condensed Consolidating Balance Sheet (unaudited) as of December 28, 2002

(in millions)

| | Tyson | IBP | Adjustments | Consolidated |
|-----------------------------------|----------|----------|-------------|--------------|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 59 | \$ 17 | \$ - | \$ 76 |
| Accounts receivable, net | 953 | 690 | (386) | 1,257 |
| Inventories | 1,056 | 820 | | 1,876 |
| Other current assets | 36 | 101 | | 137 |
| Total Current Assets | 2,104 | 1,628 | (386) | 3,346 |
| Net Property, Plant and Equipment | 2,143 | 1,877 | | 4,020 |
| Goodwill | 941 | 1,692 | | 2,633 |
| Other Assets | 3,110 | 339 | (2,905) | 544 |
| Total Assets | \$ 8,298 | \$ 5,536 | \$ (3,291) | \$ 10,543 |

Liabilities and Shareholders' Equity

| | | | | |
|--|--------------|--------------|----------------|---------------|
| Current Liabilities: | | | | |
| Current debt | \$ 275 | \$ 1 | \$ - | \$ 276 |
| Trade accounts payable | 349 | 457 | | 806 |
| Other current liabilities | 661 | 2,517 | (2,078) | 1,100 |
| | <u>1,285</u> | <u>2,975</u> | <u>(2,078)</u> | <u>2,182</u> |
| Total Current Liabilities | 1,285 | 2,975 | (2,078) | 2,182 |
| Long-Term Debt | 3,225 | 572 | | 3,797 |
| Deferred Income Taxes | 369 | 272 | | 641 |
| Other Liabilities | 66 | 180 | | 246 |
| Shareholders' Equity | 3,353 | 1,537 | (1,213) | 3,677 |
| | <u>8,298</u> | <u>5,536</u> | <u>(3,291)</u> | <u>10,543</u> |
| Total Liabilities and Shareholders' Equity | \$ 8,298 | \$ 5,536 | \$ (3,291) | \$ 10,543 |

Condensed Consolidating Balance Sheet (unaudited) as of September 28, 2002

| | | | | |
|---|---------------|--------------|--------------------|---------------------|
| | (in millions) | | | |
| | <u>Tyson</u> | <u>IBP</u> | <u>Adjustments</u> | <u>Consolidated</u> |
| Assets | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 42 | \$ 9 | \$ - | \$ 51 |
| Accounts receivable, net | 896 | 610 | (405) | 1,101 |
| Inventories | 1,078 | 807 | | 1,885 |
| Other current assets | 28 | 79 | | 107 |
| | <u>2,044</u> | <u>1,505</u> | <u>(405)</u> | <u>3,144</u> |
| Total Current Assets | 2,044 | 1,505 | (405) | 3,144 |
| Net Property, Plant and Equipment | 2,138 | 1,900 | | 4,038 |
| Goodwill | 941 | 1,692 | | 2,633 |
| Other Assets | 3,118 | 345 | (2,906) | 557 |
| | <u>8,241</u> | <u>5,442</u> | <u>(3,311)</u> | <u>10,372</u> |
| Total Assets | \$ 8,241 | \$ 5,442 | \$ (3,311) | \$ 10,372 |
| Liabilities and Shareholders' Equity | | | | |
| Current Liabilities: | | | | |
| Current debt | \$ 253 | \$ 1 | \$ - | \$ 254 |
| Trade accounts payable | 352 | 403 | | 755 |
| Other current liabilities | 635 | 2,546 | (2,097) | 1,084 |
| | <u>1,240</u> | <u>2,950</u> | <u>(2,097)</u> | <u>2,093</u> |
| Total Current Liabilities | 1,240 | 2,950 | (2,097) | 2,093 |

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Long-Term Debt | 3,160 | 573 | | 3,733 |
| Deferred Income Taxes | 378 | 265 | | 643 |
| Other Liabilities | 70 | 171 | | 241 |
| Shareholders' Equity | 3,393 | 1,483 | (1,214) | 3,662 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities and Shareholders' Equity | \$ 8,241 | \$ 5,442 | \$ (3,311) | \$ 10,372 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Condensed Consolidating Statement of Cash Flows (unaudited) for the three months ended December 28, 2002

| | (in millions) | | | |
|--|-------------------|-------------------|--------------------|---------------------|
| | <u>Tyson</u> | <u>IBP</u> | <u>Adjustments</u> | <u>Consolidated</u> |
| Cash Flows From Operating Activities: | | | | |
| Net income | \$ (13) | \$ 52 | \$ - | \$ 39 |
| Depreciation and amortization | 72 | 44 | | 116 |
| Plant closing-related charges | 45 | - | | 45 |
| Deferred income taxes and other | (23) | (8) | | (31) |
| Net changes in working capital | (49) | (75) | | (124) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash Provided by Operating Activities | 32 | 13 | | 45 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash Flows From Investing Activities: | | | | |
| Additions to property, plant and equipment | (79) | (21) | | (100) |
| Proceeds from sale of assets | 3 | 4 | | 7 |
| Net change in other assets and liabilities | 1 | 10 | | 11 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash Used for Investing Activities | (75) | (7) | | (82) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash Flows From Financing Activities: | | | | |
| Net change in debt | 86 | - | | 86 |
| Purchase of treasury shares | (15) | - | | (15) |
| Dividends and other | (15) | - | | (15) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash Provided by Financing Activities | 56 | - | | 56 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Effect of Exchange Rate Change on Cash | 4 | 2 | | 6 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Increase in Cash and Cash Equivalents | 17 | 8 | | 25 |
| Cash and Cash Equivalents at Beginning of Period | 42 | 9 | | 51 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

| | | | | |
|--|-------|-------|------|-------|
| Cash and Cash Equivalents at End of Period | \$ 59 | \$ 17 | \$ - | \$ 76 |
|--|-------|-------|------|-------|

Condensed Consolidating Statement of Cash Flows (unaudited) for the three months ended December 29, 2001

| | (in millions) | | | |
|---|---------------|--------------|-------------|--------------|
| | Tyson | IBP | Adjustments | Consolidated |
| Cash Flows From Operating Activities: | | | | |
| Net income | \$ 57 | \$ 70 | \$ - | \$ 127 |
| Net changes in working capital | 246 | (43) | | 203 |
| Depreciation and amortization | 70 | 47 | | 117 |
| Deferred income taxes and other | 36 | 24 | | 60 |
| Cash Provided by Operating Activities | 409 | 98 | | 507 |
| Cash Flows From Investing Activities: | | | | |
| Additions to property, plant and equipment | (61) | (47) | | (108) |
| Net change in investment in commercial paper | 94 | - | | 94 |
| Net change in other assets and liabilities | (29) | 6 | | (23) |
| Cash Provided by (Used for) Investing Activities | 4 | (41) | | (37) |
| Cash Flows From Financing Activities: | | | | |
| Net change in debt | (391) | (37) | | (428) |
| Purchase of treasury shares | (6) | - | | (6) |
| Dividends and other | (9) | (4) | | (13) |
| Cash Used for Financing Activities | (406) | (41) | | (447) |
| Effect of Exchange Rate Change on Cash | (1) | - | | (1) |
| Increase in Cash and Cash Equivalents | 6 | 16 | | 22 |
| Cash and Cash Equivalents at Beginning of Period | 47 | 23 | | 70 |
| Cash and Cash Equivalents at End of Period | \$ 53 | \$ 39 | \$ - | \$ 92 |

Note 7: COMPREHENSIVE INCOME

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

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2002 | December 29, 2001 |
| Net income | \$ 39 | \$ 127 |
| Other comprehensive income (loss) | | |
| Currency translation adjustment | - | 3 |
| Unrealized loss on investments | - | (1) |
| Derivative unrealized gain | 2 | 1 |
| Derivative gain (loss) recognized in cost of sales | (1) | 1 |
| Total comprehensive income | \$ 40 | \$ 131 |

Other comprehensive income is net of tax benefit (expense) of \$(0.8) million and \$0.1 million for the three months ended December 28, 2002 and December 29, 2001, respectively.

Note 8: CONTINGENCIES

Wage and Hour/ Labor Matters In 2000, the Wage and Hour Division of the U.S. Department of Labor (DOL) conducted an industry-wide investigation of poultry producers, including the Company, to ascertain compliance with various wage and hour issues. As part of this investigation, the DOL inspected 14 of the Company's processing facilities. On May 9, 2002, the Secretary of Labor filed a civil complaint against the Company in the U.S. District Court for the Northern District of Alabama. The complaint alleges that the Company violated the overtime provisions of the federal Fair Labor Standards Act at the Company's chicken-processing facility in Blountsville, Alabama. The complaint does not contain a definite statement of what acts constituted alleged violations of the statute. The Secretary seeks 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, an additional amount in liquidated damages, and an injunction against future violations at that facility and all other facilities operated by the Company. The Company has filed its initial answer and discovery has commenced. The Company believes it has substantial defenses to the claims made in this case and intends to vigorously defend the case. However, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On June 22, 1999, 11 current and former employees of the Company filed the case of *M.H. Fox, et al. v. Tyson Foods, Inc. (Fox v. Tyson)* in the U.S. District Court for the Northern District of Alabama claiming the Company violated requirements of the Fair Labor Standards Act. The suit alleges the Company failed to pay employees for all hours worked and/or improperly paid them for overtime hours. The suit specifically alleges that (1) employees should be paid for time taken to put on and take off certain working supplies at the beginning and end of their shifts and breaks and (2) the use of "mastercard" or "line" time fails to pay employees for all time actually worked. Plaintiffs seek to represent themselves and all similarly situated current and former employees of the Company. At filing 159 current and/or former employees consented to join the lawsuit and, to date, approximately 5,000 consents have been filed with the court. Discovery in this case is ongoing. A hearing was held on March 6, 2000, to consider the plaintiff's request for collective action certification and court-supervised notice. No decision has been rendered. The Company believes it has substantial defenses to the claims made and intends to vigorously defend the case; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

Substantially similar suits have been filed against several other integrated poultry companies. In addition, organizing activity conducted by representatives or affiliates of the United Food and Commercial Workers Union against the poultry industry has encouraged worker participation in *Fox v. Tyson* and the other lawsuits.

On August 22, 2000, seven employees of the Company filed the case of *De Asencio v. Tyson Foods, Inc.* in the U.S. District Court for the Eastern District of Pennsylvania. This lawsuit is similar to *Fox v. Tyson* in that the employees claim violations of the Fair Labor Standards Act for allegedly failing to pay for time taken to put on, take off and sanitize certain working supplies, and violations of the Pennsylvania Wage Payment and Collection Law. Plaintiffs seek to represent themselves and all similarly situated current and former employees of the poultry processing plants in New Holland, Pennsylvania. Currently, there are approximately 500 additional current or former employees who have filed consents to join the lawsuit. The court, on January 30, 2001, ordered that notice of the lawsuit be issued to all potential plaintiffs at the New

Holland facilities. On July 17, 2002, the court granted the plaintiffs' motion to certify the state law claims. On September 23, 2002, the Third Circuit Court of Appeals agreed to hear the Company's petition to review the court's decision to certify the state law claims. No decision has been rendered. The Company believes it has substantial defenses to the claims made and intends to defend the case vigorously; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On November 5, 2001, a lawsuit entitled *Maria Chavez, et al. vs. IBP, Lasso Acquisition Corporation and Tyson Foods, Inc.* was filed in the U.S. District Court for the Eastern District of Washington against IBP and Tyson by several employees of IBP's Pasco, Washington, beef slaughter and processing facility alleging various violations of the Fair Labor Standards Act, 29 U.S.C. Sections 201 - 219 (FLSA), as well as violations of the Washington State Minimum Wage Act, RCW chapter 49.46, Industrial Welfare Act, RCW chapter 49.12, and the Wage Deductions-Contribution-Rebates Act, RCW chapter 49.52. The lawsuit alleges IBP and/or Tyson required employees to perform unpaid work related to the donning and doffing of certain personal protective clothing, both prior to and after their shifts, as well as during meal periods. Plaintiffs further allege that similar prior litigation entitled *Alvarez, et al. vs. IBP*, which resulted in a \$3.1 million final judgment against IBP, supports a claim of collateral estoppel and/or is res judicata as to the issues raised in this new litigation. IBP filed a timely Notice of Appeal and will vigorously pursue reversal of the Alvarez judgment before the Ninth Circuit Court of Appeals. Chavez initially was pursued as an opt-in, collective action under 29 U.S.C. 216(b), but on May 24, 2002, plaintiffs filed a motion seeking certification of a class of opt-out, state law plaintiffs under Federal Rule of Civil Procedure 23. On October 28, 2002, the U.S. District Court for the Eastern District of Washington granted plaintiffs' motion (Rule 23 Order), asserting supplemental jurisdiction over the state law wage and hour claims, and certifying the class. On November 6, 2002, IBP and Tyson timely filed a motion with the Ninth Circuit Court of Appeals seeking leave to appeal the District Court's Rule 23 Order.

On November 21, 2002, a lawsuit entitled *Emily D. Jordan, et al. v. IBP, Inc. and Tyson Foods, Inc.*, was filed in the United States District Court for the Middle District of Tennessee. Ten current and former hourly employees of IBP's case-ready facility in Goodlettsville, Tennessee filed a complaint on behalf of themselves and other unspecified, allegedly "similarly situated" employees, claiming that the defendants have violated the overtime provisions of the FLSA. The suit alleges that the defendants have failed to pay employees for all hours worked from the plant's commencement of operations under IBP's control in April 2001. The Company acquired the plant as part of its merger with IBP. In particular, the suit alleges that 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. The suit also alleges that the defendants deduct 30 minutes per day from employees' paycheck regardless of whether employees obtain a full 30-minute period for their meal. Plaintiffs are seeking a declaration that the defendants did not comply with the FLSA, an award of overtime compensation, liquidated damages, interest, litigation costs, and attorneys' fees. On January 10, 2003, another 31 employees from Tennessee filed consents to join the lawsuit as plaintiffs. On January 15, 2003, the defendants filed an answer to the complaint denying any liability. On January 14, 2003, the named plaintiffs filed a motion for expedited court-supervised notice to prospective class members. The motion seeks to conditionally certify a class of similarly situated employees at all of IBP's non-unionized facilities that have not been the subject of FLSA litigation. Defendants have not yet calculated the potential size of the class, and their opposition to the motion is not yet due. The Company believes it has substantial defenses to the claims made and intends to vigorously defend the case; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

Environmental Matters On January 15, 1997, the Illinois EPA brought suit in the Circuit Court for the 14th Judicial Circuit, Rock Island, Illinois, Chancery Division against IBP alleging that IBP's operations at its Joslin, Illinois, facility are violating the "odor nuisance" regulations enacted in the State of Illinois. IBP has already completed additional improvements at its Joslin facility to further reduce odors from this operation, but denies Illinois EPA's contention that its operations at any time amounted to a "nuisance." IBP is attempting to discuss these issues with the State of Illinois in an effort to reach a settlement.

The Company has been advised by the U.S. Attorney's office for the Western District of Missouri that the government intends to seek indictment of the Company for alleged violations of the Clean Water Act related to activities at its Sedalia, Missouri facility. The Company has reached agreement "in principle" with the government to settle this matter and settlement documents are currently being negotiated. Liability with respect to this matter is expected to approximate amounts previously reserved, and thus, the Company does not expect any material adverse effect on its consolidated financial position or results or operations from this potential settlement.

On October 23, 2001, a putative class action lawsuit was filed in the District Court for Mayes County, Oklahoma, against the Company by R. Lynn Thompson and Deborah S. Thompson on behalf of all owners of Grand Lake O' the Cherokee's littoral (lake front) property. The suit alleges that the Company "or entities over which it has operational control" conduct operations in such a way as to interfere with the putative class action plaintiffs' use and enjoyment of their property, allegedly caused by diminished water quality in the lake. The Company believes the

complaint allegations are unfounded and intends to vigorously defend the case.

On December 10, 2001, the City of Tulsa, Oklahoma and the Tulsa Metropolitan Utility Authority filed in the U.S. District Court for the Northern District of Oklahoma the case styled the *The City of Tulsa and the Tulsa Municipal Utility Authority v. Tyson Foods, Inc., et al.* against the Company, Cobb-Vantress, Inc., a wholly owned subsidiary of the Company, four other fully integrated poultry companies and the City of Decatur, Arkansas. With respect to the Company and Cobb-Vantress, Inc., the suit alleges that degradation of the Tulsa water supply is attributable, in whole or in part, to the non-point source run-off from the land application of poultry litter in the watershed feeding the lakes that act as the City of Tulsa's water supply, and that the Company and Cobb-Vantress, Inc. are, together with the other defendants named in the lawsuit, jointly and severally responsible for the alleged over application of poultry litter in the watershed. Dispositive motions have been filed by all parties which were heard by the court on January 3, 2003 and remain pending. Trial for this matter was originally scheduled to begin February 18, 2003; however, the court has continued the trial until March 24, 2003. The Company believes that the allegations in the complaint are unfounded and intends to vigorously defend the case.

Securities Matters Between January and March 2001, a number of lawsuits were filed by certain stockholders in the U.S. District Court for the District of South Dakota and one suit filed in the U.S. District Court for the Southern District of New York seeking to certify a class of all persons who purchased IBP stock between February 7, 2000 and January 25, 2001. The plaintiff in the New York action has voluntarily dismissed and refiled its complaint in South Dakota, where the suits have been consolidated under the name *In re IBP, inc. Securities Litigation*. The complaints, seeking unspecified damages, allege that IBP and certain members of management violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, and claims IBP issued materially false statements about IBP's financial results in order to inflate its stock price. IBP filed a Motion to Dismiss on December 21, 2001, which is now fully briefed and pending before the Court. IBP intends to vigorously contest these claims.

On or about June 6, 2001, IBP was advised the SEC had commenced a formal investigation related to the restatement of earnings made by IBP in March 2001, including matters relating to certain improprieties in the financial statements of DFG, a wholly-owned subsidiary. The Company has been informed that three former employees of DFG received a so-called "Wells" notice advising them that the SEC had determined to recommend the initiation of an enforcement action and providing them an opportunity to provide their arguments against such an enforcement action. IBP is cooperating with this investigation.

IBP Stockholder and Merger Agreement Related Litigation Between October 2 and November 1, 2000, 14 class actions were filed in the Delaware Court of Chancery (the Delaware Court) against IBP, inc. and the members of the IBP Board of Directors. On November 13, 2000, these actions were consolidated as *In re IBP, inc. Shareholders Litigation*, C.A. No. 18373 (the Consolidated Action).

On March 29, 2001, the Company filed an action in the Chancery Court of Washington County, Arkansas, entitled *Tyson Foods, Inc., et al. v. IBP, inc.*, Case No. E 2001-749-4, alleging that the Company had been inappropriately induced to enter into a Merger Agreement with IBP dated January 1, 2001 (the Merger Agreement), and that IBP was in breach of various representations and warranties made in the Merger Agreement.

On March 30, 2001, IBP filed an answer to the amended consolidated complaint and a cross-claim (amended on April 2, 2001) against the Company in the Consolidated Action. As amended, IBP's cross-claim sought a declaration that the Company could not rescind or terminate the Merger Agreement, specific enforcement of the Merger Agreement and damages for breach of a Confidentiality Agreement.

Following expedited discovery, the Delaware Court conducted a nine day trial, beginning on May 14, 2001, on IBP's and the plaintiffs' claims for specific performance with respect to the terminated cash tender offer and the Merger Agreement and the Company's counterclaims. On June 15, 2001, following expedited post-trial briefing, the Delaware Court issued a memorandum opinion, which was issued in revised form on June 18, 2001 (the Post-Trial Opinion), in which the Delaware Court concluded, among other things, that (1) the Merger Agreement is a valid and enforceable contract that was not induced by any material misrepresentation or omission, (2) the Company did not breach the Merger Agreement or any duty to IBP's stockholders by failing to close the terminated cash tender offer, (3) the Company did not have a basis to terminate the Merger Agreement under its terms, and (4) specific performance of the Merger Agreement was the only method by which to adequately redress the harm threatened to IBP and its stockholders.

After negotiations and in accordance with the Post-Trial Opinion, the Company and IBP presented an Order, Judgment and Decree to the Delaware Court, entered on June 27, 2001, requiring the Company and its affiliates to specifically perform the Merger Agreement as modified by, and subject to the conditions contained in, a Stipulation between the Company and IBP, including making a cash tender offer for 50.1% of IBP's shares and effecting the merger with IBP.

On August 3, 2001, the Delaware Court entered an order approving the settlement of the Consolidated Action and extinguished all claims that were or could have been asserted by the IBP stockholders in the Consolidated Action in exchange for, among other things, the acceleration of the closing of a new Cash Tender Offer to August 3, 2001.

On January 7, 2002, the Company filed a motion in the Delaware Court asking that court to vacate its Post-Trial Opinion on grounds of

mootness or, in the alternative, to enter final judgment so that an appeal could be taken. The Delaware Court denied this motion on February 11, 2002, and the Company has appealed that decision, as well as the Post-Trial Opinion and certain earlier rulings by the Delaware Court, to the Delaware Supreme Court. Certain of the plaintiffs in the Delaware Federal Actions discussed below have filed a motion to dismiss the Company's appeal as untimely as to all matters except the Delaware Court's denial of the motion to vacate the Post-Trial Opinion. On July 24, 2002, the Delaware Supreme Court granted that partial motion to dismiss and directed that the balance of the appeal to go forward. Oral argument on the balance of the appeal was held on December 12, 2002, and the Court has not yet ruled.

On June 19, 2001, a purported Company stockholder commenced a derivative action in the Delaware Court entitled *Alan Shapiro v. Barbara R. Allen, et al.*, C.A. No. 18967-NC seeking monetary damages on behalf of the Company, a nominal defendant, from the members of the Company's Board of Directors. The complaint alleges the directors violated their fiduciary duties by attempting to terminate the Merger Agreement. On July 17, 2001, the defendants moved to dismiss the complaint. On August 16, 2002, the plaintiff filed an Amended Complaint, and on September 3, 2002, the defendants renewed their motion to dismiss. A hearing on the defendants' motion to dismiss has been scheduled for March 19, 2003. The defendants intend to vigorously defend these claims.

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Between June 22 and July 20, 2001, various plaintiffs commenced actions (the Delaware Federal Actions) against the Company, Don Tyson, John Tyson and Les Baledge in the U.S. District Court for the District of Delaware, seeking monetary damages on behalf of a purported class of those who sold IBP stock or traded in certain IBP options from March 29, 2001, when the Company announced its intention to terminate the Merger Agreement with IBP, and June 15, 2001, when the Delaware Court rendered its Post-Trial Opinion in the Consolidated Action. The actions, entitled *Meyer v. Tyson Foods, Inc., et al.*, C.A. No. 01-425 SLR; *Banyan Equity Mgt. v. Tyson Foods, Inc., et al.*, C.A. No. 01-426 GMS; *Steiner v. Tyson Foods, Inc., et al.*, C.A. No. 01-462 GMS; *Aetos Corp., et al. v. Tyson, et al.*, C.A. No. 01-463 GMS; *Meyers, et al. v. Tyson Foods, Inc., et al.*, C.A. No. 01-480; *Binsky v. Tyson Foods, Inc., et al.*, C.A. No. 01-495; *Management Risk Trading LP v. Tyson Foods, Inc., et al.*, C.A. No. 01-496; and *Stark Investments, L.P., et al. v. Tyson et al.*, C.A. No. 01-565 allege that the defendants violated federal securities laws by making, or causing to be made, false and misleading statements in connection with the Company's attempted termination of the Merger Agreement. The various actions were subsequently consolidated under the caption *In re Tyson Foods, Inc. Securities Litigation*. On December 4, 2001, the plaintiffs in the consolidated action filed a Consolidated Class Action Complaint. The plaintiffs allege that, as a result of the defendants' alleged conduct, the purported class members were harmed. On January 22, 2002, the defendants filed a motion to dismiss the consolidated complaint. By memorandum order dated October 23, 2002, the court granted in part and denied in part the defendants' motion to dismiss. Discovery is proceeding, and the defendants intend to vigorously defend the remaining claims.

In December 2001, a stockholder derivative lawsuit was filed in the Court of Chancery of the state of Delaware against the Company's Board of Directors and nominally, the Company. The complaint concerns the alleged violations of immigration laws that are the subject of the indictment by the U.S. Department of Justice (see below). In general, the complaint alleges that the members of the Company's Board failed to exercise reasonable control and supervision over the Company's employees and processes, implement adequate internal controls, adequately inform themselves, or take adequate and good faith remedial actions with respect to the Company's immigration practices and matters giving rise to the indictment. The complaint seeks unspecified damages against the individual Board members; no relief is sought against the Company. The Company and members of its Board have filed a motion to dismiss in the Chancery Court of Delaware and intend to vigorously defend these claims.

General Matters On or around February 15, 2002, the Company learned that a processing facility owned by Zemco Industries, Inc., a subsidiary of IBP, is the subject of an investigation by the U.S. Attorney's office in Bangor, Maine, into allegedly improper testing and recording practices. The Company acquired Zemco as part of the Company's acquisition of IBP on September 28, 2001. Zemco has responded to grand jury subpoenas and is cooperating fully with the U.S. Attorney's office. Neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this matter can be determined at this time.

In December 2001, the Company, two current employees and four former employees were indicted in the U. S. District Court in the Eastern District of Tennessee. The indictment alleges these six employees conspired to violate and did violate immigration laws involving approximately 15 named individuals at one of the Company's poultry processing facilities. The indictment also alleges that the Company utilized the services of temporary employment agencies in furtherance of the alleged conspiracy. The indictment seeks fines and forfeiture of amounts not specified. Trial for this matter is expected in February 2003. On January 17, 2003, two of the individual defendants plead guilty to one count of the 37 counts. The Company intends to vigorously defend this indictment and believes it has meritorious defenses to the government's theories of recovery; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

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Consistent with the forfeiture theory advanced in the indictment referred to above, private plaintiffs filed the following three lawsuits.

On April 10, 2002, plaintiffs filed *Trollinger, et al. vs. Tyson Foods, Inc.*, No. 4:02-cv-23 (E.D. Tenn.) in the U.S. District Court for the Eastern District of Tennessee (Winchester Division), a purported class-action lawsuit against Tyson, on behalf of all current and former employees of 15 named Tyson facilities who had been legally authorized to work in the United States. The complaint in that action asserts a claim against Tyson under the Racketeer Influence and Corrupt Organizations (RICO) statute. The complaint alleges that Tyson engaged in a scheme to depress its employees' wages by hiring illegal aliens and seeks unspecified trebled-damages. The Company has moved to dismiss the complaint. On July 17, 2002, the court granted the Company's Motion to Dismiss the case for failure to state a claim upon which relief could be granted. Plaintiffs have filed a Notice of Appeal. The matter has been fully briefed; however, no date for oral arguments has been set. The Company intends to vigorously defend these claims; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On March 6, 2002, plaintiffs filed *Baker, et al. vs. IBP, inc.*, C.A. No. 02-4019 (C.D. Ill) in the U.S. District Court for the Central District of Illinois (Rock Island Division), a purported class-action lawsuit, on behalf of all current and former employees of IBP's Joslin, Illinois, facility who had been legally authorized to work in the United States. The complaint asserts a claim against IBP under the RICO statute. The complaint alleges that IBP engaged in a scheme to depress its employees' wages by hiring illegal aliens and seeks unspecified trebled-damages. The Company has moved to dismiss the complaint. On October 21, 2002, the court granted the Company's Motion to Dismiss the case for failure to state a claim upon which relief could be granted. Plaintiffs have filed a Notice of Appeal. The matter has been fully briefed; however, no date for oral arguments has been set. The Company intends to vigorously defend these claims; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On April 17, 2002, plaintiff Cynthia Cruz filed *Cruz vs. Tyson Foods, Inc.*, C.A. No. 02 C 2761 (N.D. Ill.), a purported class-action lawsuit against Tyson and others on behalf of all persons with Hispanic surnames whose identities and social security numbers were allegedly "stolen" and misused by the named defendants. The complaint asserts a claim under the RICO statute, a claim for violation of the federal civil rights statute, and common-law claims for defamation, violation of privacy and property rights, fraud, and tortious interference with contract. As of this date, the Company has moved to dismiss this action. The matter has been fully briefed; however, no date for oral arguments has been set. The Company intends to vigorously defend these claims; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

In July 1996, certain cattle producers filed *Henry Lee Pickett, et al vs. IBP, inc.* in the U.S. District Court, Middle District of Alabama, seeking certification of a class of all cattle producers. The complaint alleges that IBP has used its market power and alleged "captive supply" agreements to reduce the prices paid to producers for cattle. Plaintiffs have disclosed that, in addition to declaratory relief, they seek actual and punitive damages. The original motion for class certification was denied by the Court; plaintiffs then amended their motion, defining a narrower class consisting of only those cattle producers who sold cattle directly to IBP from 1994 through the date of certification. The Court approved this narrower class in April 1999. The 11th Circuit Court of Appeals reversed the District Court decision to certify a class on the basis that there were inherent conflicts amongst class members preventing the named plaintiffs from providing adequate representation to the class. The plaintiffs then filed pleadings seeking to certify an amended class. The Court denied the plaintiffs' motion on October 17, 2000. Plaintiffs' motion for reconsideration of the judge's decision was denied, and plaintiffs then asked the Court to certify a class of cattle producers who have sold exclusively to IBP on a cash market basis, which the Court granted in December 2001. In January 2002, IBP filed a petition with the 11th Circuit Court of Appeals seeking permission to appeal the class certification decision, which the Circuit Court of Appeals denied on March 5, 2002. The District Court has set a schedule for completing the format of the class notice mailing. No trial date has been set. IBP has filed motions for summary judgment on both liability and damages filed with the District Court, which are now pending. Plaintiffs have claimed damages in the case in excess of \$500,000,000. Management believes IBP has acted properly and lawfully in its dealings with cattle producers and intends to vigorously defend this case. However, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On August 8, 2000, the Company was served with a complaint filed in the U.S. District Court for the District of Arizona styled *Lemelson Medical, Education & Research Foundation, Limited Partnership v. Alcon Laboratories, et al.*, CIV00-0661 PHX PGR. The plaintiff sued the Company, along with approximately 100 other defendants in the food, beverage, drug, cosmetic and tobacco industries, claiming that the defendants infringed various patents held by the Foundation. The alleged patent infringement is based on the defendants' alleged use of the Foundation's automatic identification patents that relate to the use of bar coding and/or the Foundation's patents that relate to machine vision. The Foundation seeks treble damages for the defendants' alleged infringement. The case is currently stayed pending the resolution of related litigation. Neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

On September 12, 2002, 82 individual plaintiffs filed *Michael Archer, et al. v. Tyson Foods, Inc. and The Pork Group, Inc.*, CIV 2002-497, in the Circuit Court of Pope County, Arkansas. On August 18, 2002, the Company announced a restructuring of its live swine operations which, among other things, will result in the discontinuance of relationships with 132 contract hog producers, including the plaintiffs. In their complaint, the plaintiffs allege that the Company committed fraud and should be promissory estopped from terminating the parties' relationship. The plaintiffs seek compensatory and punitive damages in an unspecified amount. The Company has filed a motion to Stay All Proceedings and

Compel Arbitration. The plaintiffs have responded to the Motion to Compel and rejected arbitration. A hearing on the arbitration issue was held on January 23, 2003; however, no decision was rendered. Discovery has not begun. The Company intends to vigorously defend these claims; however, neither the likelihood of an unfavorable outcome nor the amount of ultimate liability, if any, with respect to this case can be determined at this time.

The Company is pursuing various antitrust claims relating to vitamins, methionine and choline. In the first quarter of 2003 the Company received approximately \$28 million in partial settlement of these claims. In addition, the Company has received approximately \$78 million in the second quarter of 2003. Additional settlements are anticipated. Amounts received for these claims are recorded as income only upon receipt of settlement proceeds.

Other Matters The Company is subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of its business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on the Company's consolidated results of operations or financial position.

Note 9: EARNINGS PER SHARE

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

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 28, 2002 | December 29, 2001 |
| Numerator: | | |
| Net income | \$ 39 | \$ 127 |
| Denominator: | | |
| Denominator for basic earnings per share- | | |
| Weighted average shares | 347 | 348 |
| Effect of dilutive securities: | | |
| Stock options and restricted stock | 7 | 7 |
| Denominator for diluted earnings per share- | | |
| Adjusted weighted average shares and | | |
| Assumed conversions | 354 | 355 |
| Basic earnings per share | \$ 0.11 | \$ 0.36 |
| Diluted earnings per share | \$ 0.11 | \$ 0.36 |

Approximately 10 million shares of the Company's option shares outstanding at December 28, 2002 were antidilutive and were not included in the dilutive earnings per share calculation for the first quarter.

Note 10: SEGMENT REPORTING

The Company operates in five business segments: Beef, Chicken, Pork, Prepared Foods and Other. The Company measures segment profit as operating income.

Beef segment is primarily involved in the slaughter of live fed cattle and fabrication of dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. It also involves deriving value from allied products such as hides and variety meats for sales to further processors and others. The Beef segment markets its products to food retailers, distributors, wholesalers, restaurants and hotel chains and other food processors in domestic and international markets. Allied products are also marketed to manufacturers of pharmaceuticals and technical products.

Chicken segment includes fresh, frozen and value-added chicken products sold through domestic food service, domestic retail markets for at-home consumption, wholesale club markets targeted to small foodservice operations, small businesses and individuals, as well as specialty and

commodity distributors who deliver to restaurants, schools and international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

Pork segment represents the Company's live swine group, hog slaughter and fabrication operations, case-ready products and related allied product processing activities. The Pork segment markets its products to food retailers, distributors, wholesalers, restaurants and hotel chains and other food processors in domestic and international markets. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine to pork processors.

Prepared Foods segment includes the Company's operations that manufactures and markets frozen and refrigerated food products. Products include pepperoni, beef and pork toppings, pizza crusts, flour and corn tortilla products, appetizers, hors d'oeuvres, desserts, prepared meals, ethnic foods, soups, sauces, side dishes, specialty pasta and meat dishes as well as branded and processed meats.

Other segment includes the logistics group and other corporate groups not identified with specific protein groups.

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

| | Three Months Ended | |
|----------------------------|----------------------|----------------------|
| | December 28, 2002 | December 29, 2001 |
| Sales: | | |
| Beef | \$ 2,715 | \$ 2,548 |
| Chicken | 1,795 | 1,773 |
| Pork | 594 | 689 |
| Prepared Foods | 684 | 836 |
| Other | 14 | 19 |
| Total Sales | <u>\$ 5,802</u> | <u>\$ 5,865</u> |
| Operating income: | | |
| Beef | 47 | 49 |
| Chicken | 13 | 138 |
| Pork | 24 | 47 |
| Prepared Foods | 29 | 31 |
| Other | 32 | 8 |
| Total Operating income | <u>145</u> | <u>273</u> |
| Other expense | <u>84</u> | <u>79</u> |
| Income before income taxes | <u>\$ 61</u> | <u>\$ 194</u> |

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

RESULTS OF OPERATIONS

Earnings for the first quarter of fiscal 2003 were \$39 million or \$0.11 per share compared to \$127 million or \$0.36 per share for the first quarter

of fiscal 2002. First quarter fiscal 2003 earnings include \$47 million of costs related to the closing of two poultry operations. Additionally, earnings were adversely affected by a sluggish U.S. economy, increased grain costs, lower market prices caused by an oversupply of all meat proteins, as well as continued pressures in international markets. These decreases were partially offset by \$28 million received in connection with ongoing vitamin antitrust litigation and improvements to product mix.

First Quarter of Fiscal 2003 vs. First Quarter of Fiscal 2002

Sales decreased 1.1%, with a slight increase in volume and a 1.5% decrease in price.

Cost of sales increased \$47 million or 0.9%. As a percent of sales, cost of sales increased to 93.1% from 91.3%. This increase was due largely to higher beef live costs and increases in grain costs in the chicken segment.

Selling, general and administrative expenses decreased \$29 million. As a percentage of sales, selling, general and administrative expenses decreased to 3.6% from 4.0%. This resulted primarily from savings in general and administrative expenses associated with the ongoing integration of IBP and Tyson corporate functions, and the sale of Specialty Brands in the fourth quarter of fiscal 2002.

Other charges include costs associated with the announced closing of two poultry operations.

Interest expense remained flat from the same period last year. The net average interest rate increased to 7.7% from 6.8% primarily due to an increase of \$6 million in interest expense as a result of bonds repurchased. Average total debt decreased \$491 million.

Beef segment first quarter sales increased \$167 million or 6.6% from the same period last year, with a 3.7% increase in average sales prices and a 2.7% increase in volume. Case-ready beef sales were \$200 million and increased 14.3%, fresh meat beef sales increased 5.2% and international beef sales increased 10.4%. Beef segment operating income decreased \$2 million. The beef segment sales increases were more than offset by higher live cattle prices, thus resulting in decreased operating income.

Chicken segment first quarter sales increased \$22 million or 1.2% from the same period last year, with a slight decrease in average sales prices and a 1.3% increase in volume. Foodservice chicken sales increased 11.7%, retail chicken sales decreased 3.5% and international chicken sales decreased 25.5%. First quarter sales of the Company's Mexican subsidiary increased 16.7% from the same period last year. This increase was more than offset by decreases in other international sales demand as markets continue to be impacted by import restrictions and political pressures primarily in Russia and China. Chicken segment operating income decreased \$125 million from the same period last year primarily due to increased grain costs, plant closing costs and lower market prices which continue to be impacted by an oversupply of meat.

Pork segment first quarter sales decreased \$95 million or 13.8% from the same period last year, with a 12.0% decrease in average sales prices and a 2.0% decrease in volume. Case-ready pork sales were \$42 million and increased 44.3%, fresh meat pork sales decreased 14.2% and international pork sales decreased 20.9%. Pork segment operating income decreased \$23 million. The declines in sales and operating income are primarily due to the completion of our live swine restructuring and lower average selling prices for our finished product which were partially offset by a reduction in live hog prices.

Prepared Foods segment first quarter sales decreased \$152 million or 18.1% from the same period last year with a 10.6% decrease in average sales prices and an 8.4% decrease in volume. Sales declined due to product and plant rationalization, the sale of the Company's Specialty Brands, Inc. subsidiary, which accounted for \$58 million in sales last year, and the effect of lower raw material costs on pricing. Segment operating income decreased \$2 million.

Other segment operating income increased \$24 million primarily due to the partial settlement of \$28 million received in the first quarter of fiscal 2003 related to ongoing vitamin antitrust litigation.

FINANCIAL CONDITION

For the three months ended December 28, 2002, net cash totaling \$45 million was provided by operating activities. The decrease from the same period last year is due to a decrease in net income of \$88 million and a net change in the working capital effect of \$327 million. The Company used cash from operations and borrowings to fund \$100 million of property, plant and equipment additions and to repurchase \$15 million of the Company's Class A common stock in the open market. The expenditures for property, plant and equipment were related to acquiring new equipment and upgrading facilities in order to maintain competitive standing and position the Company for future opportunities. Capital spending for fiscal 2003 is expected to be in the range of \$400-\$450 million.

At December 28, 2002, working capital was \$1.2 billion compared to \$1.1 billion at 2002 fiscal year end, an increase of \$113 million. The

current ratio at December 28, 2002 and September 28, 2002 was 1.5 to 1. At December 28, 2002, total debt was 52.6% of total capitalization compared to 52.1% at September 28, 2002.

Total debt at December 28, 2002, was \$4,073 million, an increase of \$86 million from September 28, 2002. The Company has unsecured revolving credit agreements totaling \$1 billion that support the Company's commercial paper program. These \$1 billion in facilities consist of \$200 million that expires in June 2003, \$300 million that expires in June 2005 and \$500 million that expires in September 2006. At December 28, 2002, there were no amounts outstanding under these facilities. Outstanding debt at December 28, 2002 consisted of \$3.5 billion of debt securities, \$135 million issued under accounts receivable securitization debt, \$179 million of commercial paper and other indebtedness of \$250 million.

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 is in compliance with these covenants at December 28, 2002.

The Company's foreseeable cash needs for operations and capital expenditures are expected to be met through cash flows provided by operating activities. Additionally at December 28, 2002, the Company had borrowing capacity of \$1.3 billion consisting of \$652 million available under its \$1 billion unsecured revolving credit agreements and \$615 million under its \$750 million accounts receivable securitization.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated 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. The following is a summary of certain accounting estimates considered critical by the Company.

Financial instruments The Company uses derivative financial instruments to manage its exposure to various market risks, including certain livestock, interest rates and grain and feed costs. The Company may hold positions as economic hedges for which hedge accounting is not applied

Contingent liabilities The Company is subject to lawsuits, investigations and other claims related to wage and hour/labor, cattle procurement, securities, environmental, product and other matters, and is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after considerable analysis of each individual issue. These reserves may change in the future due to changes in the Company's assumptions, the effectiveness of strategies, or other factors beyond the Company's control.

Accrued self insurance Insurance expense for casualty claims and employee-related health care benefits are estimated using historical experience and actuarial estimates. The assumptions used to arrive at periodic expenses are reviewed regularly by management. However, actual expenses could differ from these estimates and could result in adjustments to be recognized.

Impairment of long-lived assets The Company is required to assess potential impairments to its long-lived assets, which is primarily property, plant and equipment. If impairment indicators are present, the Company must measure the fair value of the assets in accordance with SFAS 144 to determine if adjustments are to be recorded.

Goodwill and intangible asset impairment In assessing the recoverability of the Company's goodwill and other intangible assets, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates and related assumptions change in the future, the Company may be required to record impairment charges not previously recorded. On September 30, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and was required to assess its goodwill for impairment issues upon adoption, and then at least annually thereafter.

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

The Company and its representatives may from time to time make written or oral forward-looking statements, including forward-looking statements made in this report, with respect to their current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations, expressed in such forward-looking statements. The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Among the factors that may affect the operating results of the Company are the following: (i) fluctuations in the cost and availability of raw materials, such as live cattle, live swine or feed grain costs; (ii) changes in the availability and relative costs of labor and contract growers; (iii) operating efficiencies of facilities; (iv) market conditions for finished products, including the supply and pricing of alternative proteins; (v) effectiveness of advertising and marketing programs; (vi) the ability of the Company to make effective acquisitions and successfully integrate newly acquired businesses into existing operations; (vii) risks associated with leverage, including cost increases due to rising interest rates; (viii) risks associated with effectively evaluating derivatives and hedging activities; (ix) changes in regulations and laws (both domestic and foreign), including changes in accounting standards, environmental laws and occupational, health and safety laws; (x) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (xi) adverse results from ongoing litigation; (xii) access to foreign markets together with foreign economic conditions, including currency fluctuations; and (xiii) the effect of, or changes in, general economic conditions.

Item 3. Quantitative and Qualitative Disclosure About Market Risks

Please refer to the Company's market risk disclosures set forth in the 2002 Annual Report filed on Form 10-K for a more detailed discussion of quantitative and qualitative disclosures about market risk. The Company's market risk disclosures have not changed significantly from the 2002 Annual Report.

Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures.

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, the Company's Chairman and Chief Executive Officer and its Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

- (b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Refer to information under Part I., Item 1. Notes to Consolidated Condensed Financial Statements, Note 8: Contingencies.

Item 2. Changes in Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

The exhibit filed with this report is listed in the exhibit index at the end of this Item 6.

(b) Reports on Form 8-K:

None

EXHIBIT INDEX

The following exhibit is filed with this report.

| <u>Exhibit No.</u> | <u>Exhibit Description</u> | <u>Page</u> |
|--------------------|--|-------------|
| 99.1 | 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 |
| 99.1 | 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. | 33 |

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: January 31, 2003

/s/ Steven Hankins
Steven Hankins
Executive Vice President and
Chief Financial Officer

Date: January 31, 2003

/s/ Rodney S. Pless
Rodney S. Pless
Senior Vice President, Controller and
Chief Accounting Officer

CERTIFICATIONS

I, John Tyson, Chairman and Chief Executive Officer of Tyson Foods, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tyson Foods, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

/s/ John Tyson
John Tyson
Chairman and Chief Executive Officer

I, Steven Hankins, Executive Vice President and Chief Financial Officer of Tyson Foods, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tyson Foods, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

/s/ Steven Hankins
Steven Hankins
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Tyson Foods, Inc. (the Company) on Form 10-Q for the period ending December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John Tyson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John Tyson
John Tyson
Chairman and Chief Executive Officer

January 31, 2003

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Tyson Foods, Inc. (the Company) on Form 10-Q for the period ending December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven Hankins, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Steven Hankins
Steven Hankins
Executive Vice President and Chief Financial Officer

January 31, 2003