

TYSON FOODS INC  
Form 10-Q/A  
January 08, 2004

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

**FORM 10-Q/A**  
**Amendment 1**

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

**For the quarterly period ended March 29, 2003**

**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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 29, 2003

| <u>Class</u>                           | <u>Outstanding Shares</u> |
|--|---------------------------|
| Class A Common Stock, \$0.10 Par Value | 249,127,440               |
| Class B Common Stock, \$0.10 Par Value | 101,636,348               |

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### EXPLANATORY NOTE

In accordance with SEC Rule 12b-15, this Amendment No. 1 on Form 10-Q/A amends certain items of the Quarterly Report on Form 10-Q of Tyson Foods, Inc. (the "Company") for the fiscal quarter ended March 29, 2003 as filed with the Securities and Exchange Commission ("SEC") on May 13, 2003, and presents in its entirety the Form 10-Q, as amended. These amended items do not restate the Company's consolidated financial statements previously filed in the Form 10-Q. This Form 10-Q/A is in response to comments from the Staff of the SEC following their review of the Company's SEC filing. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures affected by subsequent events. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's subsequent filings with the SEC.

The changes reflected by this Form 10-Q/A are revisions and supplemental disclosures to the Selling, General and Administrative expense disclosure and Prepared Foods segment disclosure in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and revisions and supplemental disclosures to Footnotes 2, 3, and 9 contained in the Financial Statements. The Exhibit Index in Item 6 is also amended to reflect the inclusion of updated certifications of certain executive officers.

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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 |                   | Six Months Ended  |                   |
|--------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                      | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| Sales                                | \$ 5,845           | \$ 5,839          | \$ 11,647         | \$ 11,704         |
| Cost of Sales                        | 5,465              | 5,442             | 10,867            | 10,797            |
|                                      | 380                | 397               | 780               | 907               |
| Selling, General and Administrative  | 197                | 218               | 405               | 455               |
| Other Charges                        | -                  | -                 | 47                | -                 |
| Operating Income                     | 183                | 179               | 328               | 452               |
| Other Expense:                       |                    |                   |                   |                   |
| Interest                             | 71                 | 76                | 150               | 155               |
| Other                                | 1                  | -                 | 6                 | -                 |
|                                      | 72                 | 76                | 156               | 155               |
| Income before Income Taxes           | 111                | 103               | 172               | 297               |
| Provision for Income Taxes           | 39                 | 38                | 61                | 105               |
| Net Income                           | \$ 72              | \$ 65             | \$ 111            | \$ 192            |
| Weighted Average Shares Outstanding: |                    |                   |                   |                   |
| Basic                                | 346                | 348               | 346               | 348               |
| Diluted                              | 352                | 355               | 353               | 355               |
| Earnings Per Share:                  |                    |                   |                   |                   |
| Basic                                | \$ 0.21            | \$ 0.19           | \$ 0.32           | \$ 0.55           |
| Diluted                              | \$ 0.20            | \$ 0.18           | \$ 0.31           | \$ 0.54           |
| Cash Dividends Per Share:            |                    |                   |                   |                   |
| Class A                              | \$ 0.040           | \$ 0.040          | \$ 0.080          | \$ 0.080          |
| Class B                              | \$ 0.036           | \$ 0.036          | \$ 0.072          | \$ 0.072          |

See accompanying notes.

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

|   | (Unaudited)       |                       |
|---|-------------------|-----------------------|
|   | March 29,<br>2003 | September 28,<br>2002 |
| <b>Assets</b>   |                   |                       |
| <b>Current Assets:</b>  |                   |                       |
| Cash and cash equivalents   | \$ 71             | \$ 51                 |
| Accounts receivable, net  | 1,178             | 1,101                 |
| Inventories   | 1,866             | 1,885                 |
| Other current assets  | 111               | 107                   |
| <b>Total Current Assets</b>   | <b>3,226</b>      | <b>3,144</b>          |
| Net Property, Plant and Equipment   | 3,993             | 4,038                 |
| Goodwill  | 2,634             | 2,633                 |
| Intangible Assets   | 186               | 190                   |
| Other Assets  | 324               | 367                   |
| <b>Total Assets</b>   | <b>\$ 10,363</b>  | <b>\$ 10,372</b>      |
| <b>Liabilities and Shareholders' Equity</b>   |                   |                       |
| <b>Current Liabilities:</b>   |                   |                       |
| Current debt  | \$ 137            | \$ 254                |
| Trade accounts payable  | 749               | 755                   |
| Other current liabilities   | 1,084             | 1,084                 |
| <b>Total Current Liabilities</b>  | <b>1,970</b>      | <b>2,093</b>          |
| Long-Term Debt  | 3,769             | 3,733                 |
| Deferred Income Taxes   | 646               | 643                   |
| Other Liabilities   | 240               | 241                   |
| <b>Shareholders' Equity:</b>  |                   |                       |
| Common stock (\$0.10 par value):  |                   |                       |
| Class A-authorized 900 million shares:<br>issued 267 million shares at March 29, 2003<br>and September 28, 2002     | 27                | 27                    |
| Class B-authorized 900 million shares:<br>issued 102 million shares at March 29, 2003<br>and September 28, 2002     | 10                | 10                    |
| Capital in excess of par value  | 1,876             | 1,879                 |
| Retained earnings   | 2,181             | 2,097                 |
| Accumulated other comprehensive loss  | (36)              | (49)                  |
|   | 4,058             | 3,964                 |
| Less treasury stock, at cost-<br>18 million shares at March 29, 2003<br>and 16 million shares at September 28, 2002 | 287               | 265                   |
| Less unamortized deferred compensation  | 33                | 37                    |

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|  |           |           |
|--|-----------|-----------|
| Total Shareholders' Equity                 | 3,738     | 3,662     |
| Total Liabilities and Shareholders' Equity | \$ 10,363 | \$ 10,372 |

See accompanying notes.

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

|   | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| <b>Cash Flows From Operating Activities:</b>            |                    |                   |                   |                   |
| Net income  | \$ 72              | \$ 65             | \$ 111            | \$ 192            |
| Depreciation and amortization                           | 112                | 115               | 228               | 232               |
| Plant closing-related charges                           | (23)               | -                 | 22                | -                 |
| Deferred income taxes and other                         | 31                 | (2)               | -                 | 58                |
| Net changes in working capital                          | 53                 | 4                 | (71)              | 207               |
| <b>Cash Provided by Operating Activities</b>            | <b>245</b>         | <b>182</b>        | <b>290</b>        | <b>689</b>        |
| <b>Cash Flows From Investing Activities:</b>            |                    |                   |                   |                   |
| Additions to property, plant and equipment              | (82)               | (132)             | (182)             | (240)             |
| Proceeds from sale of assets                            | 4                  | 2                 | 11                | 2                 |
| Net change in investment in commercial paper            | -                  | -                 | -                 | 94                |
| Net changes in other assets and liabilities             | 26                 | (30)              | 37                | (53)              |
| <b>Cash Used for Investing Activities</b>               | <b>(52)</b>        | <b>(160)</b>      | <b>(134)</b>      | <b>(197)</b>      |
| <b>Cash Flows From Financing Activities:</b>            |                    |                   |                   |                   |
| Net change in debt                                      | (167)              | (47)              | (81)              | (475)             |
| Purchases of treasury shares                            | (14)               | (4)               | (29)              | (10)              |
| Dividends and other                                     | (14)               | (16)              | (29)              | (29)              |
| <b>Cash Used for Financing Activities</b>               | <b>(195)</b>       | <b>(67)</b>       | <b>(139)</b>      | <b>(514)</b>      |
| <b>Effect of Exchange Rate Change on Cash</b>           | <b>(3)</b>         | <b>3</b>          | <b>3</b>          | <b>2</b>          |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b> | <b>(5)</b>         | <b>(42)</b>       | <b>20</b>         | <b>(20)</b>       |
| <b>Cash and Cash Equivalents at Beginning of Period</b> | <b>76</b>          | <b>92</b>         | <b>51</b>         | <b>70</b>         |
| <b>Cash and Cash Equivalents at End of Period</b>       | <b>\$ 71</b>       | <b>\$ 50</b>      | <b>\$ 71</b>      | <b>\$ 50</b>      |

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 March 29, 2003, and September 28, 2002, and the results of operations and cash flows for the three months and six months ended March 29, 2003, and March 30, 2002. The results of operations and cash flows for the three months and six months ended March 29, 2003, and March 30, 2002 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 cost 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:

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|                           | Three Months Ended |                   | Six Months Ended  |                   |
|---------------------------|--------------------|-------------------|-------------------|-------------------|
|                           | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| <b>Net Income</b>         |                    |                   |                   |                   |
| As reported               | \$ 72              | \$ 65             | \$ 111            | \$ 192            |
| Pro forma                 | 71                 | 65                | 109               | 191               |
| <b>Earnings per share</b> |                    |                   |                   |                   |
| As reported               |                    |                   |                   |                   |
| Basic                     | 0.21               | 0.19              | 0.32              | 0.55              |
| Diluted                   | 0.20               | 0.18              | 0.31              | 0.54              |
| Pro forma                 |                    |                   |                   |                   |
| Basic                     | 0.20               | 0.19              | 0.31              | 0.55              |
| Diluted                   | 0.20               | 0.18              | 0.31              | 0.54              |

Pro forma net income reflects only options granted after fiscal 1995. Additionally, the pro forma disclosures are not likely to be representative of the effects on net income for the full year or future years.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In January 2003, the Financial Accounting Standards Board (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 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. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. The interpretation is immediately effective for variable interest entities created after January 31, 2003, and effective in the fourth quarter of fiscal 2003 for those created prior to February 1, 2003. The Company believes the adoption of the Interpretation will not have a material impact on its financial position or results of operations.

**RECLASSIFICATIONS**

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

**Note 2: OTHER CHARGES**

In the first quarter of fiscal 2003, the Company recorded a \$47 million accrual of costs related to the closing of its Stilwell, Oklahoma and Jacksonville, Florida plants that includes \$26 million of costs related to closing the plants and \$21 million of estimated impairment charges for assets to be disposed of. The costs related to closing the plants include \$17 million for estimated liabilities for the resolution of the Company's obligation under 89 grower contracts, and \$9 million of other related costs associated with the closing closing of the plants including plant clean-up costs and employee termination benefits. The costs are reflected in the chicken segment as a reduction of operating income and included in the consolidated statements of a reduction of operating income and included in the consolidated statements of income in other charges. At March 29, 2003, the remaining accrual balance for closing the two poultry operations was \$22 million as \$14 million of obligations under grower contracts and \$11 million of other closing costs had been paid. No material adjustments to the total accrual are anticipated at this time.

In the fourth quarter of fiscal 2002, the Company recorded a \$26 million accrual for restructuring 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 restructuring including lagoon and pit closure costs and employee termination benefits. At March 29, 2003, the remaining accrual balance was \$18 million as \$6 million of obligations under grower contracts and \$2 million of other related costs had been paid. No material adjustments to the total accrual are anticipated at this time.

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**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. 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 life of the flock using a standard unit of production. Total inventory consists of the following (in millions):

|                        | <b>March 29,<br/>2003</b> | <b>September 28,<br/>2002</b> |
|------------------------|---------------------------|-------------------------------|
| Processed products     | \$ 1,069                  | \$ 1,112                      |
| Livestock              | 515                       | 505                           |
| Supplies and other     | 282                       | 268                           |
| <b>Total inventory</b> | <b>\$ 1,866</b>           | <b>\$ 1,885</b>               |

**Note 4: PROPERTY, PLANT AND EQUIPMENT**

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

|  | <b>March 29,<br/>2003</b> | <b>September 28,<br/>2002</b> |
|--|---------------------------|-------------------------------|
| Land                                       | \$ 112                    | \$ 111                        |
| Buildings and leasehold improvements       | 2,211                     | 2,154                         |
| Machinery and equipment                    | 3,624                     | 3,419                         |
| Land improvements and other                | 181                       | 185                           |
| Buildings and equipment under construction | 305                       | 414                           |
|  | 6,433                     | 6,283                         |
| Less accumulated depreciation              | 2,440                     | 2,245                         |
| <b>Net property, plant and equipment</b>   | <b>\$ 3,993</b>           | <b>\$ 4,038</b>               |

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**Note 5: OTHER CURRENT LIABILITIES**

Other current liabilities are as follows (in millions):

|  | <b>March 29,<br/>2003</b> | <b>September 28,<br/>2002</b> |
|--|---------------------------|-------------------------------|
| Accrued salaries, wages and benefits   | \$ 250                    | \$ 308                        |
| Self insurance reserves                | 229                       | 225                           |
| Income taxes payable                   | 250                       | 202                           |
| Property and other taxes               | 55                        | 52                            |
| Other                                  | 300                       | 297                           |
| <b>Total other current liabilities</b> | <b>\$ 1,084</b>           | <b>\$ 1,084</b>               |

**Note 6: LONG-TERM DEBT**

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

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|   | Maturity         | March 29,<br>2003 | September 28,<br>2002 |
|---|------------------|-------------------|-----------------------|
| Commercial paper (1.66% effective rate at 3/29/03 and 2.17% effective rate at 9/28/02)                        | 2003             | \$ 133            | \$ 24                 |
| Revolving Credit Facilities   | 2003, 2005, 2006 | -                 | -                     |
| Senior notes and Notes (rates ranging from 6% to 8.25%)   | 2004-2028        | 3,360             | 3,607                 |
| Accounts Receivable Securitization Debt (2.09% effective rate at 3/29/03 and 2.35% effective rate at 9/28/02) | 2003             | 180               | 75                    |
| Institutional notes (10.84% effective rate at 3/29/03 and 9/28/02)  | 2003-2006        | 40                | 50                    |
| Leveraged equipment loans (rates ranging from 4.7% to 6.0%)   | 2005-2008        | 115               | 124                   |
| Other   | Various          | 78                | 107                   |
| <b>Total debt</b>   |                  | <b>3,906</b>      | <b>3,987</b>          |
| Less current debt   |                  | 137               | 254                   |
| <b>Total long-term debt</b>   |                  | <b>\$ 3,769</b>   | <b>\$ 3,733</b>       |

The revolving credit facilities, 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 March 29, 2003.

The Company has 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 the Company as TRC's equity holder.

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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 March 29, 2003, was \$95 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 \$102 million, of which, approximately \$30 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, inc. (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.

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Condensed Consolidating Statement of Income (unaudited) for the three months ended March 29, 2003

(in millions)

|                                     | Tyson    | IBP      | Adjustments | Consolidated |
|-------------------------------------|----------|----------|-------------|--------------|
| Sales                               | \$ 1,990 | \$ 3,858 | \$ (3)      | \$ 5,845     |
| Cost of Sales                       | 1,717    | 3,751    | (3)         | 5,465        |
|                                     | 273      | 107      |             | 380          |
| Selling, General and Administrative | 123      | 74       |             | 197          |
| Operating Income                    | 150      | 33       |             | 183          |
| Interest and Other Expense          | 53       | 19       |             | 72           |
| Income Before Income Taxes          | 97       | 14       |             | 111          |
| Provision for Income Taxes          | 35       | 4        |             | 39           |
| Net Income                          | \$ 62    | \$ 10    | \$ -        | \$ 72        |

Condensed Consolidating Statement of Income (unaudited) for the three months ended March 30, 2002

(in millions)

|                                     | Tyson    | IBP      | Adjustments | Consolidated |
|-------------------------------------|----------|----------|-------------|--------------|
| Sales                               | \$ 1,915 | \$ 3,930 | \$ (6)      | \$ 5,839     |
| Cost of Sales                       | 1,688    | 3,760    | (6)         | 5,442        |
|                                     | 227      | 170      |             | 397          |
| Selling, General and Administrative | 122      | 96       |             | 218          |
| Operating Income                    | 105      | 74       |             | 179          |
| Interest and Other Expense          | 57       | 19       |             | 76           |
| Income Before Income Taxes          | 48       | 55       |             | 103          |
| Provision for Income Taxes          | 18       | 20       |             | 38           |
| Net Income                          | \$ 30    | \$ 35    | \$ -        | \$ 65        |

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Condensed Consolidating Statement of Income (unaudited) for the six months ended March 29, 2003

(in millions)

|                                     | Tyson    | IBP      | Adjustments | Consolidated |
|-------------------------------------|----------|----------|-------------|--------------|
| Sales                               | \$ 3,967 | \$ 7,698 | \$ (18)     | \$ 11,647    |
| Cost of Sales                       | 3,476    | 7,409    | (18)        | 10,867       |
|                                     | 491      | 289      |             | 780          |
| Selling, General and Administrative | 251      | 154      |             | 405          |
| Other Charges                       | 47       | -        |             | 47           |
| Operating Income                    | 193      | 135      |             | 328          |
| Interest and Other Expense          | 117      | 39       |             | 156          |
| Income Before Income Taxes          | 76       | 96       |             | 172          |
| Provision for Income Taxes          | 27       | 34       |             | 61           |
| Net Income                          | \$ 49    | \$ 62    | \$ -        | \$ 111       |

Condensed Consolidating Statement of Income (unaudited) for the six months ended March 30, 2002

(in millions)

|                                     | Tyson    | IBP      | Adjustments | Consolidated |
|-------------------------------------|----------|----------|-------------|--------------|
| Sales                               | \$ 3,807 | \$ 7,911 | \$ (14)     | \$ 11,704    |
| Cost of Sales                       | 3,309    | 7,502    | (14)        | 10,797       |
|                                     | 498      | 409      |             | 907          |
| Selling, General and Administrative | 253      | 202      |             | 455          |
| Operating Income                    | 245      | 207      |             | 452          |
| Interest and Other Expense          | 115      | 40       |             | 155          |
| Income Before Income Taxes          | 130      | 167      |             | 297          |
| Provision for Income Taxes          | 43       | 62       |             | 105          |
| Net Income                          | \$ 87    | \$ 105   | \$ -        | \$ 192       |

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Condensed Consolidating Balance Sheet (unaudited) as of March 29, 2003

(in millions)

|   | Tyson    | IBP      | Adjustments | Consolidated |
|---|----------|----------|-------------|--------------|
| <b>Assets</b>                               |          |          |             |              |
| Current Assets:                             |          |          |             |              |
| Cash and cash equivalents                   | \$ 60    | \$ 11    | \$ -        | \$ 71        |
| Accounts receivable, net                    | 867      | 636      | (325)       | 1,178        |
| Inventories                                 | 1,020    | 846      |             | 1,866        |
| Other current assets                        | 19       | 92       |             | 111          |
| Total Current Assets                        | 1,966    | 1,585    | (325)       | 3,226        |
| Net Property, Plant and Equipment           | 2,135    | 1,858    |             | 3,993        |
| Goodwill                                    | 942      | 1,692    |             | 2,634        |
| Intangible Assets                           | -        | 186      |             | 186          |
| Other Assets                                | 3,098    | 131      | (2,905)     | 324          |
| Total Assets                                | \$ 8,141 | \$ 5,452 | \$ (3,230)  | \$ 10,363    |
| <b>Liabilities and Shareholders' Equity</b> |          |          |             |              |
| Current Liabilities:                        |          |          |             |              |
| Current debt                                | \$ 136   | \$ 1     | \$ -        | \$ 137       |
| Trade accounts payable                      | 360      | 389      |             | 749          |
| Other current liabilities                   | 613      | 2,488    | (2,017)     | 1,084        |
| Total Current Liabilities                   | 1,109    | 2,878    | (2,017)     | 1,970        |
| Long-Term Debt                              | 3,199    | 570      |             | 3,769        |
| Deferred Income Taxes                       | 380      | 266      |             | 646          |
| Other Liabilities                           | 62       | 178      |             | 240          |
| Shareholders' Equity                        | 3,391    | 1,560    | (1,213)     | 3,738        |
| Total Liabilities and Shareholders' Equity  | \$ 8,141 | \$ 5,452 | \$ (3,230)  | \$ 10,363    |

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

(in millions)

|   | Tyson           | IBP             | Adjustments       | Consolidated     |
|---|-----------------|-----------------|-------------------|------------------|
| <b>Assets</b>                                     |                 |                 |                   |                  |
| 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              |
| <b>Total Current Assets</b>                       | <b>2,044</b>    | <b>1,505</b>    | <b>(405)</b>      | <b>3,144</b>     |
| Net Property, Plant and Equipment                 | 2,138           | 1,900           |                   | 4,038            |
| Goodwill  | 941             | 1,692           |                   | 2,633            |
| Intangible Assets                                 | -               | 190             |                   | 190              |
| Other Assets                                      | 3,118           | 155             | (2,906)           | 367              |
| <b>Total Assets</b>                               | <b>\$ 8,241</b> | <b>\$ 5,442</b> | <b>\$ (3,311)</b> | <b>\$ 10,372</b> |
| <b>Liabilities and Shareholders' Equity</b>       |                 |                 |                   |                  |
| Current Liabilities:                              |                 |                 |                   |                  |
| Current debt                                      | \$ 253          | \$ 1            | \$ -              | \$ 254           |
| Trade accounts payable                            | 352             | 403             |                   | 755              |
| Other current liabilities                         | 635             | 2,546           | (2,097)           | 1,084            |
| <b>Total Current Liabilities</b>                  | <b>1,240</b>    | <b>2,950</b>    | <b>(2,097)</b>    | <b>2,093</b>     |
| 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            |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 8,241</b> | <b>\$ 5,442</b> | <b>\$ (3,311)</b> | <b>\$ 10,372</b> |

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Condensed Consolidating Statement of Cash Flows (unaudited) for the three months ended March 29, 2003

(in millions)

|   | Tyson        | IBP          | Adjustments | Consolidated |
|---|--------------|--------------|-------------|--------------|
| <b>Cash Flows From Operating Activities:</b>        |              |              |             |              |
| Net income  | \$ 62        | \$ 10        | \$ -        | \$ 72        |
| Depreciation and amortization                       | 63           | 49           |             | 112          |
| Plant closing-related charges                       | (23)         | -            |             | (23)         |
| Deferred income taxes and other                     | 29           | 2            |             | 31           |
| Net changes in working capital                      | 109          | (56)         |             | 53           |
| <b>Cash Provided by Operating Activities</b>        | <b>240</b>   | <b>5</b>     |             | <b>245</b>   |
| <b>Cash Flows From Investing Activities:</b>        |              |              |             |              |
| Additions to property, plant and equipment          | (61)         | (21)         |             | (82)         |
| Proceeds from sale of assets                        | 3            | 1            |             | 4            |
| Net change in other assets and liabilities          | 12           | 14           |             | 26           |
| <b>Cash Used for Investing Activities</b>           | <b>(46)</b>  | <b>(6)</b>   |             | <b>(52)</b>  |
| <b>Cash Flows From Financing Activities:</b>        |              |              |             |              |
| Net change in debt                                  | (163)        | (4)          |             | (167)        |
| Purchase of treasury shares                         | (14)         | -            |             | (14)         |
| Dividends and other                                 | (14)         | -            |             | (14)         |
| <b>Cash Used for Financing Activities</b>           | <b>(191)</b> | <b>(4)</b>   |             | <b>(195)</b> |
| Effect of Exchange Rate Change on Cash              | (2)          | (1)          |             | (3)          |
| Increase (Decrease) in Cash and Cash<br>Equivalents | 1            | (6)          |             | (5)          |
| Cash and Cash Equivalents at Beginning of<br>Period | 59           | 17           |             | 76           |
| <b>Cash and Cash Equivalents at End of Period</b>   | <b>\$ 60</b> | <b>\$ 11</b> | <b>\$ -</b> | <b>\$ 71</b> |

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Condensed Consolidating Statement of Cash Flows (unaudited) for the three months ended March 30, 2002

(in millions)

|   | Tyson        | IBP          | Adjustments | Consolidated |
|---|--------------|--------------|-------------|--------------|
| <b>Cash Flows From Operating Activities:</b>      |              |              |             |              |
| Net income  | \$ 30        | \$ 35        | \$ -        | \$ 65        |
| Depreciation and amortization                     | 77           | 38           |             | 115          |
| Deferred income taxes and other                   | (2)          | -            |             | (2)          |
| Net changes in working capital                    | 1            | 3            |             | 4            |
| <b>Cash Provided by Operating Activities</b>      | <b>106</b>   | <b>76</b>    |             | <b>182</b>   |
| <b>Cash Flows From Investing Activities:</b>      |              |              |             |              |
| Additions to property, plant and equipment        | (84)         | (48)         |             | (132)        |
| Net change in other assets and liabilities        | (21)         | (7)          |             | (28)         |
| <b>Cash Used for Investing Activities</b>         | <b>(105)</b> | <b>(55)</b>  |             | <b>(160)</b> |
| <b>Cash Flows From Financing Activities:</b>      |              |              |             |              |
| Net change in debt                                | (3)          | (44)         |             | (47)         |
| Purchase of treasury shares                       | (4)          | -            |             | (4)          |
| Dividends and other                               | (17)         | 1            |             | (16)         |
| <b>Cash Used for Financing Activities</b>         | <b>(24)</b>  | <b>(43)</b>  |             | <b>(67)</b>  |
| Effect of Exchange Rate Change on Cash            | 4            | (1)          |             | 3            |
| Decrease in Cash and Cash Equivalents             | (19)         | (23)         |             | (42)         |
| Cash and Cash Equivalents at Beginning of Period  | 53           | 39           |             | 92           |
| <b>Cash and Cash Equivalents at End of Period</b> | <b>\$ 34</b> | <b>\$ 16</b> | <b>\$ -</b> | <b>\$ 50</b> |

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Condensed Consolidating Statement of Cash Flows (unaudited) for the six months ended March 29, 2003

(in millions)

|   | Tyson        | IBP          | Adjustments | Consolidated |
|---|--------------|--------------|-------------|--------------|
| <b>Cash Flows From Operating Activities:</b>      |              |              |             |              |
| Net income  | \$ 49        | \$ 62        | \$ -        | \$ 111       |
| Depreciation and amortization                     | 135          | 93           |             | 228          |
| Plant closing-related charges                     | 22           | -            |             | 22           |
| Deferred income taxes and other                   | 6            | (6)          |             | -            |
| Net changes in working capital                    | 60           | (131)        |             | (71)         |
| <b>Cash Provided by Operating Activities</b>      | <b>272</b>   | <b>18</b>    |             | <b>290</b>   |
| <b>Cash Flows From Investing Activities:</b>      |              |              |             |              |
| Additions to property, plant and equipment        | (140)        | (42)         |             | (182)        |
| Proceeds from sale of assets                      | 6            | 5            |             | 11           |
| Net change in other assets and liabilities        | 13           | 24           |             | 37           |
| <b>Cash Used for Investing Activities</b>         | <b>(121)</b> | <b>(13)</b>  |             | <b>(134)</b> |
| <b>Cash Flows From Financing Activities:</b>      |              |              |             |              |
| Net change in debt                                | (77)         | (4)          |             | (81)         |
| Purchase of treasury shares                       | (29)         | -            |             | (29)         |
| Dividends and other                               | (29)         | -            |             | (29)         |
| <b>Cash Used for Financing Activities</b>         | <b>(135)</b> | <b>(4)</b>   |             | <b>(139)</b> |
| Effect of Exchange Rate Change on Cash            | 2            | 1            |             | 3            |
| Increase in Cash and Cash Equivalents             | 18           | 2            |             | 20           |
| Cash and Cash Equivalents at Beginning of Period  | 42           | 9            |             | 51           |
| <b>Cash and Cash Equivalents at End of Period</b> | <b>\$ 60</b> | <b>\$ 11</b> | <b>\$ -</b> | <b>\$ 71</b> |

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Condensed Consolidating Statement of Cash Flows (unaudited) for the six months ended March 30, 2002

(in millions)

|   | Tyson        | IBP          | Adjustments | Consolidated |
|---|--------------|--------------|-------------|--------------|
| <b>Cash Flows From Operating Activities:</b>      |              |              |             |              |
| Net income  | \$ 87        | \$ 105       | \$ -        | \$ 192       |
| Depreciation and amortization                     | 147          | 85           |             | 232          |
| Deferred income taxes and other                   | 34           | 24           |             | 58           |
| Net changes in working capital                    | 247          | (40)         |             | 207          |
| <b>Cash Provided by Operating Activities</b>      | <b>515</b>   | <b>174</b>   |             | <b>689</b>   |
| <b>Cash Flows From Investing Activities:</b>      |              |              |             |              |
| Additions to property, plant and equipment        | (145)        | (95)         |             | (240)        |
| Net change in investment in commercial paper      | 94           | -            |             | 94           |
| Net change in other assets and liabilities        | (50)         | (1)          |             | (51)         |
| <b>Cash Used for Investing Activities</b>         | <b>(101)</b> | <b>(96)</b>  |             | <b>(197)</b> |
| <b>Cash Flows From Financing Activities:</b>      |              |              |             |              |
| Net change in debt                                | (394)        | (81)         |             | (475)        |
| Purchase of treasury shares                       | (10)         | -            |             | (10)         |
| Dividends and other                               | (26)         | (3)          |             | (29)         |
| <b>Cash Used for Financing Activities</b>         | <b>(430)</b> | <b>(84)</b>  |             | <b>(514)</b> |
| Effect of Exchange Rate Change on Cash            | 3            | (1)          |             | 2            |
| Decrease in Cash and Cash Equivalents             | (13)         | (7)          |             | (20)         |
| Cash and Cash Equivalents at Beginning of Period  | 47           | 23           |             | 70           |
| <b>Cash and Cash Equivalents at End of Period</b> | <b>\$ 34</b> | <b>\$ 16</b> | <b>\$ -</b> | <b>\$ 50</b> |

**Note 8: COMPREHENSIVE INCOME**

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

|                                   | Three Months Ended |                   | Six Months Ended  |                   |
|-----------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                   | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| Net Income                        | \$ 72              | \$ 65             | \$ 111            | \$ 192            |
| Other comprehensive income (loss) |                    |                   |                   |                   |
| Currency translation adjustment   | 10                 | 4                 | 10                | 7                 |

**Note 6: LONG-TERM DEBT**

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|   |           |       |        |        |
|---|-----------|-------|--------|--------|
| Unrealized loss on investments              | -         | -     | -      | (1)    |
| Derivative unrealized gain                  | -         | 1     | 2      | 2      |
| Derivative gain recognized in cost of sales | 2         | 1     | 1      | 2      |
| <hr/>                                       |           |       |        |        |
| Total comprehensive income                  | \$ 84     | \$ 71 | \$ 124 | \$ 202 |
| <hr/>                                       |           |       |        |        |
|   | <b>18</b> |       |        |        |

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

|   | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| <b>Income tax benefit (expense):</b>        |                    |                   |                   |                   |
| Currency translation adjustment             | \$ -               | \$ -              | \$ -              | \$ -              |
| Unrealized loss on investments              | -                  | -                 | -                 | 0.7               |
| Derivative unrealized gain                  | (0.3)              | (0.5)             | (1.4)             | (0.8)             |
| Derivative gain recognized in cost of sales | (1.1)              | (0.4)             | (0.8)             | (0.8)             |
| <b>Total income tax expense</b>             | <b>\$ (1.4)</b>    | <b>\$ (0.9)</b>   | <b>\$ (2.2)</b>   | <b>\$ (0.9)</b>   |

### Note 9: CONTINGENCIES

Listed below are certain claims made against the Company and its subsidiaries. In the Company's opinion, it has made appropriate and adequate reserves and accruals where necessary and the Company believes the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain and if accruals and reserves are not adequate, an adverse outcome could have a material effect on the financial condition or results of operations of the Company. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

**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 (FLSA) 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 of Labor 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.

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 FLSA. 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.

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.

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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 FLSA 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 plant 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.

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, inc. (IBP) and the Company by several employees of IBP's Pasco, Washington, beef slaughter and processing facility alleging various violations of the FLSA, 29 U.S.C. Sections 201 - 219, 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 the Company 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 the U.S. District Court for the Eastern District of Washington granted plaintiff's motion seeking certification of a class of opt-out, state law plaintiffs under Federal Rule of Civil Procedure 23. A trial date of September 7, 2004 has been set by the court.

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 acquisition of 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. Plaintiffs seek to include all non-exempt employees that have worked at the facility since its opening on April 1, 2001. Defendants have not filed a response to the motion.

**Environmental Matters** 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 an 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 of 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. Simmons Foods, Inc. ("Simmons") and Peterson Farms, Inc. have been served with an amended complaint. The Company and Simmons are seeking leave to file a third party complaint against entities that contribute wastes and wastewater into Grand Lake.

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. This lawsuit was settled by the parties on March 24, 2003 but the court has ordered that the terms remain confidential until the settlement is approved by the court. 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 of operations from this settlement.

**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 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 was then fully briefed. While the motion was awaiting decision, IBP and the plaintiffs reached a tentative settlement of all claims, as reflected by a Memorandum of Understanding ("MOU") that was executed on March 19, 2003. The MOU sets forth the essential terms of a settlement to be reflected in final settlement documents to be prepared and submitted to the court for approval, including, among other terms and conditions, the dismissal with prejudice of all claims against defendants, releases by class members, and a payment by IBP of a total amount of \$8 million. The tentative settlement is subject to various conditions, including among other things, execution of definitive documentation and receiving preliminary and final court approvals. In light of this tentative settlement,

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IBP has been permitted by the court to withdraw its pending motion to dismiss, without prejudice. The Company does not anticipate that effectuation of the tentative settlement will have any material impact on its financial condition, especially in view of IBP's insurance coverage for the matter.

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 Mergers Agreement with IBP dated January 1, 2001 (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. The Delaware Court granted the defendants' motion and dismissed the Amended Complaint with prejudice at a hearing on March 19, 2003.

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.

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 were 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. The plaintiff has not filed any response but has instead stated an intention to dismiss the case.

**General Matters** 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 alleged that 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 sought fines and forfeiture of amounts not specified. On January 17, 2003, two of the individual defendants plead guilty to one count of the 37 counts. After a seven week jury trial in Chattanooga, Tennessee with Chief Judge R. Allan Edgar presiding, on March 26, 2003 the jury found all defendants, including the Company, not guilty on all remaining counts of the indictment.

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 11<sup>th</sup> 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 class notice mailing and set a trial date of January 12, 2004. IBP's motions for summary judgment on both liability and damages were denied on April 29, 2003. 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.

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 promissorily 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 motion to compel arbitration was held on January 23, 2003. On February 21, 2003, the court entered an order denying the motion to compel. The Company filed an interlocutory appeal of the court's order denying the motion to compel arbitration on or about March 19, 2003.

The Company is pursuing various antitrust claims relating to vitamins, methionine and choline. In partial settlement of these claims, the Company received approximately \$28 million in the first quarter of 2003 and approximately \$94 million in the second quarter of 2003. In addition, the Company has received approximately \$42 million in the third quarter of 2003. Additional settlements of much lesser amounts are anticipated. Amounts received for these claims are recorded as income only upon receipt of settlement proceeds.

**Other Matters** The Company has in excess of 120,000 team members and at any time has various employment practices matters. In the aggregate, these matters are significant to the Company and the Company devotes significant resources to handling employment issues. Additionally, 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

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are not expected to have a material adverse effect on the Company's consolidated results of operations or financial position.

### Note 10: 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 |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| <b>Numerator:</b>  |                    |                   |                   |                   |
| Net income   | \$ 72              | \$ 65             | \$ 111            | \$ 192            |
| <b>Denominator:</b>  |                    |                   |                   |                   |
| Denominator for basic earnings per share-<br>Weighted average shares                                       | 346                | 348               | 346               | 348               |
| Effect of dilutive securities:   |                    |                   |                   |                   |
| Stock options and restricted stock   | 6                  | 7                 | 7                 | 7                 |
| Denominator for diluted earnings per share-<br>Adjusted weighted average shares and<br>Assumed conversions | 352                | 355               | 353               | 355               |
| Basic earnings per share   | 0.21               | 0.19              | 0.32              | 0.55              |
| Diluted earnings per share   | 0.20               | 0.18              | 0.31              | 0.54              |

Approximately 12 million shares and 6 million shares of the Company's option shares outstanding at March 29, 2003, and March 30, 2002, respectively, were antidilutive and were not included in the dilutive earnings per share calculation for the second quarter and six months.

### Note 11: 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.

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**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 manufacture and market 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 activities not identified with specific protein groups. For the three and six months ended March 29, 2003, this segment also includes proceeds of \$94 and \$122 million respectively, received from the partial settlement related to ongoing vitamin antitrust litigation.

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

|                                   | Three Months Ended |                   | Six Months Ended  |                   |
|-----------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                   | March 29,<br>2003  | March 30,<br>2002 | March 29,<br>2003 | March 30,<br>2002 |
| <b>Sales:</b>                     |                    |                   |                   |                   |
| Beef                              | \$ 2,790           | \$ 2,595          | \$ 5,505          | \$ 5,143          |
| Chicken                           | 1,828              | 1,796             | 3,623             | 3,570             |
| Pork                              | 597                | 698               | 1,191             | 1,386             |
| Prepared Foods                    | 618                | 732               | 1,302             | 1,568             |
| Other                             | 12                 | 18                | 26                | 37                |
| <b>Total Sales</b>                | <b>\$ 5,845</b>    | <b>\$ 5,839</b>   | <b>\$ 11,647</b>  | <b>\$ 11,704</b>  |
| <b>Operating Income:</b>          |                    |                   |                   |                   |
| Beef                              | \$ 6               | \$ 14             | \$ 53             | \$ 63             |
| Chicken                           | 45                 | 114               | 58                | 252               |
| Pork                              | 24                 | 10                | 48                | 56                |
| Prepared Foods                    | 7                  | 35                | 36                | 67                |
| Other                             | 101                | 6                 | 133               | 14                |
| <b>Total Operating Income</b>     | <b>183</b>         | <b>179</b>        | <b>328</b>        | <b>452</b>        |
| <b>Other Expense</b>              | <b>72</b>          | <b>76</b>         | <b>156</b>        | <b>155</b>        |
| <b>Income before Income Taxes</b> | <b>\$ 111</b>      | <b>\$ 103</b>     | <b>\$ 172</b>     | <b>\$ 297</b>     |

### NOTE 12: SUBSEQUENT EVENT

In April 2003, the Company announced its intention to begin phasing out operations of a Maryland poultry operation which includes a hatchery, a feed mill, live production and a processing plant. A letter of intent has been signed for the sale of the feed mill. The Company expects the phase out to be completed during the first quarter of fiscal 2004. Pre-tax charges to earnings are expected to occur in the third and fourth

quarters of fiscal 2003, and range from \$30 to \$35 million. This decision is part of the Company's ongoing plant rationalization efforts.

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

### RESULTS OF OPERATIONS

Earnings for the second quarter of fiscal 2003 were \$72 million or \$0.20 per diluted share compared to \$65 million or \$0.18 per diluted share for the second quarter of fiscal 2002. Earnings for the six months of fiscal 2003 were \$111 million, or \$0.31 per diluted share, compared to \$192 million, or \$0.54 per diluted share in fiscal 2002. Included in pretax earnings for the second quarter and six months of fiscal 2003 are \$94 million and \$122 million, respectively, received in connection with ongoing vitamin antitrust litigation. Also included are \$47 million of costs related to the closing of two poultry operations during the first quarter of 2003. The sluggish US economy, increased grain costs, higher live cattle prices, lower market prices in the chicken, pork and prepared foods segments, as well as pressures in international markets, continue to adversely affect earnings.

#### Second Quarter of Fiscal 2003 vs. Second Quarter of Fiscal 2002

Sales increased slightly for the quarter with a 0.2% increase in volume and a 0.1% decrease in price.

Cost of sales increased \$23 million or 0.4%. As a percent of sales, cost of sales increased to 93.5% from 93.2%. This increase was due largely to higher live cattle prices and increases in grain costs in the chicken segment.

Selling, general and administrative expenses decreased \$21 million. As a percentage of sales, selling, general and administrative expenses decreased to 3.4% from 3.7%. The decrease is primarily due to the expense reductions of approximately \$12 million related to the sale of Specialty Brands in the fourth quarter of fiscal 2002, approximately \$2 million associated with the ongoing integration of Tyson and IBP, inc. (IBP) corporate functions and approximately \$7 million in litigation costs primarily resulting from the reversal of approximately \$10 million of certain legal accruals which are no longer required due to cases being closed during the quarter. The decreases in selling, general and administrative expenses were partially offset by increased professional fees of approximately \$10 million primarily related to the Company's ongoing integration and strategic initiatives.

Interest expense decreased \$5 million and 8.2% from the same period last year, primarily as a result of a 6.8% decrease in the Company's average indebtedness. Short-term interest rates were lower than last year and the overall weighted average borrowing rate decreased from 7.09% to 6.98%.

#### Second Quarter Segment Review (In millions)

|                | Sales<br>by Segment<br>Three Months Ended |                   | Operating Income<br>by Segment<br>Three Months Ended |                   |
|----------------|---|-------------------|--|-------------------|
|                | March 29,<br>2003                         | March 30,<br>2002 | March 29,<br>2003                                    | March 30,<br>2002 |
| Beef           | \$ 2,790                                  | \$ 2,595          | \$ 6   | \$ 14             |
| Chicken        | 1,828                                     | 1,796             | 45   | 114               |
| Pork           | 597                                       | 698               | 24   | 10                |
| Prepared Foods | 618                                       | 732               | 7  | 35                |
| Other          | 12  | 18                | 101  | 6                 |
| <b>Total</b>   | <b>\$ 5,845</b>                           | <b>\$ 5,839</b>   | <b>\$ 183</b>  | <b>\$ 179</b>     |

Beef segment second quarter sales increased \$195 million or 7.5% from the same period last year, with an 8.4% increase in average sales prices and a 0.8% decrease in volume. Case-ready beef sales were \$243 million and increased 15.4%, domestic fresh meat beef sales increased 4.5% and international beef sales

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increased 17.4%. Beef segment operating income decreased \$8 million. The beef segment sales increases were more than offset by an 11.6% increase in live cattle prices, thus resulting in decreased operating income.

Chicken segment second quarter sales increased \$32 million or 1.8% from the same period last year, with a 3.5% decrease in average sales prices and a 5.4% increase in volume. Retail chicken sales dollars increased 3.8%, while foodservice and international chicken sales dollars remained constant. International sales continue to be impacted by import restrictions and political pressures, primarily in Russia and China. Chicken segment operating income decreased \$69 million from the same period last year primarily due to increased grain costs and lower market prices.

Pork segment second quarter sales decreased \$101 million or 14.3% from the same period last year, with an 11.8% decrease in average sales prices and a 2.8% decrease in volume. Case-ready pork sales were \$53 million and increased 44.8%, fresh meat pork sales decreased 17.2%, live swine sales decreased 34.9% and international pork sales decreased 13.5%. The decline in pork segment sales is primarily due to lower average selling prices for our finished product. Pork segment operating income increased \$14 million. Operating income was positively affected by the favorable results of the restructuring of the live swine operation.

Prepared foods segment second quarter sales decreased \$114 million or 15.7% from the same period last year with a 4.6% decrease in average sales prices and an 11.6% decrease in volume, or a 4.5% decrease, excluding Specialty Brands prior year volume. Sales declined primarily due to the sale of Specialty Brands, which accounted for \$60 million in sales for the second quarter last year, and the effect of lower raw material costs on pricing. Additionally, sales were impacted by softened customer demand from foodservice restaurants. Segment operating income decreased \$28 million from the same period last year.

Other segment operating income increased \$95 million primarily due to the partial settlement of \$94 million received in the second quarter of fiscal 2003 related to ongoing vitamin antitrust litigation.

### **Six Months of Fiscal 2003 vs. Six Months of Fiscal 2002**

Sales decreased 0.5%, with a slight increase in volume and a 0.8% decrease in price.

Cost of sales increased \$70 million or 0.6%. As a percent of sales, cost of sales increased to 93.3% from 92.3%. 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 \$50 million. As a percentage of sales, selling, general and administrative expenses decreased to 3.5% from 3.9%. The decrease is primarily due to the expense reductions of approximately \$22 million related to the sale of Specialty Brands in the fourth quarter of fiscal 2002, approximately \$8 million associated with the ongoing integration of Tyson and IBP corporate functions and approximately \$12 million in litigation costs primarily resulting from the reversal of approximately \$10 million of certain legal accruals which are no longer required due to cases being closed during the quarter. The decreases in selling, general and administrative expenses were partially offset by increased professional fees of approximately \$10 million primarily related to the Company's ongoing integration and strategic initiatives.

Interest expense decreased \$5 million and 3.6% from the same period last year, primarily as a result of an 8.8% decrease in the Company's average indebtedness. The overall weighted average borrowing rate increased to 7.3% from 6.9%, primarily resulting from bonds repurchased in the first quarter of fiscal 2003. Excluding the repurchase of the bonds, interest expense decreased \$11 million.

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## Six Months Segment Review (In millions)

|                | Sales<br>by Segment<br>Six Months Ended |                   | Operating Income<br>by Segment<br>Six Months Ended |                   |
|----------------|---|-------------------|--|-------------------|
|                | March 29,<br>2003                       | March 30,<br>2002 | March 29,<br>2003                                  | March 30,<br>2002 |
| Beef           | \$ 5,505                                | \$ 5,143          | \$ 53  | \$ 63             |
| Chicken        | 3,623                                   | 3,570             | 58   | 252               |
| Pork           | 1,191                                   | 1,386             | 48   | 56                |
| Prepared Foods | 1,302                                   | 1,568             | 36   | 67                |
| Other          | 26                                      | 37                | 133  | 14                |
| <b>Total</b>   | <b>\$ 11,647</b>                        | <b>\$ 11,704</b>  | <b>\$ 328</b>                                      | <b>\$ 452</b>     |

Beef segment six months sales increased \$362 million or 7.1% from the same period last year, with a 6.0% increase in average sales prices and a 1.0% increase in volume. Case-ready beef sales were \$442 million and increased 14.9%, domestic fresh meat beef sales increased 5.1% and international beef sales increased 12.0%. Beef segment operating income decreased \$10 million. The beef segment sales increases were more than offset by a 10.0% increase in live cattle prices and increased operating costs, thus resulting in decreased operating income.

Chicken segment six months sales increased \$53 million or 1.5% from the same period last year, with a 1.8% decrease in average sales prices and a 3.4% increase in volume. Foodservice chicken sales dollars increased 5.8%, retail chicken sales dollars increased slightly and international chicken sales dollars decreased 14.1%. International sales continue to be impacted by import restrictions and political pressures, primarily in Russia and China. Chicken segment operating income decreased \$194 million from the same period last year primarily due to increased grain costs, plant closing costs and lower market prices.

Pork segment six months sales decreased \$195 million or 14.1% from the same period last year, with a 12.0% decrease in average sales prices and a 2.4% decrease in volume. Case-ready pork sales were \$96 million and increased 44.6%, fresh meat pork sales decreased 15.7%, live swine sales decreased 40.3% and international pork sales decreased 17.2%. Pork segment operating income decreased \$8 million. The declines in sales and operating income are primarily due to lower average selling prices for our finished product which were partially offset by a reduction in live hog prices, as well as improvements resulting from the completion of the restructuring of the live swine operations.

Prepared foods six months sales decreased \$266 million or 17.0% from the same period last year, with a 7.8% decrease in average sales prices and a 10.0% decrease in volume, or a 3.3% decrease, excluding Specialty Brands prior year volume. Sales declined primarily due to the sale of Specialty Brands, which accounted for \$119 million in sales last year, and the effect of lower raw material costs on pricing. Additionally, sales were impacted by softened customer demand from foodservice restaurants. Segment operating income decreased \$31 million from the same period last year.

Other segment operating income increased \$119 million primarily due to the partial settlement of \$122 million related to ongoing vitamin antitrust litigation.

## FINANCIAL CONDITION

For the second quarter of fiscal 2003, net cash totaling \$245 million was provided by operating activities. The Company used cash from operations to fund property, plant and equipment additions, to pay down debt and to repurchase additional shares of the Company's Class A common stock in the open market.

For the six months ended March 29, 2003, net cash totaling \$290 million was provided by operating activities. The decrease from the same period last year is due to a decrease in net income of \$81 million and a net change in the working capital effect of \$278 million. The Company used cash from operations to fund property, plant and equipment additions, to pay down debt and to repurchase additional shares 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 to \$450 million.

At March 29, 2003, working capital was \$1.3 billion compared to \$1.1 billion at 2002 fiscal year end, an increase of \$205 million. The current ratio at March 29, 2003 was 1.6 to 1 compared to 1.5 to 1 at September 28, 2002. At March 29, 2003, total debt was 51.1% of total capitalization compared to 52.1% at September 28, 2002.

Total debt at March 29, 2003, was \$3.9 billion, a decrease of \$81 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 March 29, 2003, there were no amounts outstanding under these facilities. Outstanding debt at March 29, 2003, consisted of \$3.4 billion of debt securities, \$180 million issued under accounts receivable securitization debt, \$133 million of commercial paper and other indebtedness of \$233 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 March 29, 2003.

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 March 29, 2003, the Company had borrowing capacity of \$1.2 billion consisting of \$644 million available under its \$1 billion unsecured revolving credit agreements and \$570 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.

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**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, to the extent possible, 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, or changes in debt ratings or outlook; (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 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 Securities Exchange Act of 1934 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 the discussion of certain legal proceedings pending against the Company under Part I., Item 1. Notes to Consolidated Condensed Financial Statements, Note 9: Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and its subsidiaries.

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.

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.

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.

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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 Delaware Supreme Court subsequently affirmed the denial.

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.

Consistent with the forfeiture theory advanced in the indictment against the Company, two current employees and four former employees alleging conspiracy to violate and violation of immigration laws (the "INS Matter"), private plaintiffs filed the following three lawsuits. Because of the favorable verdict rendered in the INS Matter, the Company presently believes that future disclosure with respect to these three matters is not required.

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.

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 and the matter is set for oral argument on May 30, 2003.

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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 and the court has allowed discovery to proceed on the class certification issues

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.

### **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**

The following directors were elected at the annual meeting of stockholders held February 7, 2003:

| <u>Directors</u>   | <u>Votes For</u> | <u>Votes Withheld</u> |
|--------------------|------------------|-----------------------|
| Don Tyson          | 1,216,612,139    | 14,926,833            |
| John Tyson         | 1,190,489,614    | 40,419,358            |
| Leland E. Tollett  | 1,218,641,959    | 12,267,013            |
| Barbara A. Tyson   | 1,215,917,028    | 14,991,944            |
| Lloyd V. Hackley   | 1,218,454,620    | 12,454,352            |
| Jim Kever          | 1,218,417,847    | 12,491,125            |
| David A. Jones     | 1,218,423,149    | 12,485,823            |
| Robert L. Peterson | 1,217,979,672    | 12,929,300            |
| Richard L. Bond    | 1,191,598,908    | 39,310,064            |
| Jo Ann Smith       | 1,218,444,327    | 12,464,645            |

No other items were voted on during the quarter ended March 29, 2003.

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**Item 5. Other Information**

On May 1, 2003, IBP, inc. changed its name to Tyson Fresh Meats, Inc. For the reader's convenience, throughout this report the Company has referred to this entity as IBP, inc. or IBP.

**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> |
|--------------------|--|-------------|
| 12.1               | Calculation of Ratio of Earnings to Fixed Charges (previously filed as Exhibit 12.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 29, 2003, Commission File No. 0-3400, and incorporated herein by reference). |             |
| 31.1               | Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002   | 38          |
| 31.2               | Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002   | 39          |
| 32.1               | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   | 40          |
| 32.2               | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   | 41          |

**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: /s/ Steven  
January 7, Hankins  
2004

Steven  
Hankins  
Executive  
Vice President  
and  
Chief  
Financial  
Officer

Date: /s/ Rodney S.  
January 7, Pless  
2004

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