TYSON FOODS INC
Form 10-Q
January 30, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 27, 2014
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to
001-14704
(Commission File Number)

TYSON FOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	71-0225165 (I.R.S. Employer Identification No.)
2200 Don Tyson Parkway, 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 27, 2014.

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	304,572,910
Class B Common Stock, $0.10 Par Value (Class B stock)	70,010,805

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended	
	December 27, 2014	December 28, 2013
Sales	$10,817	$8,761
Cost of Sales	9,861	8,076
Gross Profit	956	685
Selling, General and Administrative	447	273
Operating Income	509	412
Other (Income) Expense:		
Interest income	(2)	(2)
Interest expense	77	28
Other, net	(1)	3
Total Other (Income) Expense	74	29
Income before Income Taxes	435	383
Income Tax Expense	125	131
Net Income	310	252
Less: Net Income (Loss) Attributable to Noncontrolling Interests	1	(2)
Net Income Attributable to Tyson	$309	$254
Weighted Average Shares Outstanding:		
Class A Basic	336	271
Class B Basic	70	70
Diluted	416	354
Net Income Per Share Attributable to Tyson:		
Class A Basic	$0.77	$0.76
Class B Basic	$0.71	$0.68
Diluted	$0.74	$0.72
Dividends Declared Per Share:		
Class A	$0.125	$0.100
Class B	$0.113	$0.090

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended	
	December 27, 2014	December 28, 2013
Net Income	$310	$252
Other Comprehensive Income (Loss), Net of Taxes:		
Derivatives accounted for as cash flow hedges	1	(2)
Investments	9	3
Currency translation	6	(11)
Postretirement benefits	7	2
Total Other Comprehensive Income (Loss), Net of Taxes	23	(8)
Comprehensive Income	333	244
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	1	(2)
Comprehensive Income Attributable to Tyson	$332	$246

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	December 27, 2014	September 27, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$381	$438
Accounts receivable, net	1,777	1,684
Inventories	3,192	3,274
Other current assets	375	379
Assets held for sale	213	446
Total Current Assets	5,938	6,221
Net Property, Plant and Equipment	5,211	5,130
Goodwill	6,700	6,706
Intangible Assets, net	5,246	5,276
Other Assets	663	623
Total Assets	$23,758	$23,956
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	$596	$643
Accounts payable	2,147	1,806
Other current liabilities	1,157	1,207
Liabilities held for sale	54	141
Total Current Liabilities	3,954	3,797
Long-Term Debt	6,931	7,535
Deferred Income Taxes	2,473	2,450
Other Liabilities	1,263	1,270
Commitments and Contingencies (Note 16)		
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 346 million shares	35	35
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	4,265	4,257
Retained earnings	6,011	5,748
Accumulated other comprehensive loss	(124)	(147)
Treasury stock, at cost – 41 million shares at December 27, 2014 and 40 million shares at September 27, 2014	(1,071)	(1,010)
Total Tyson Shareholders' Equity	9,123	8,890
Noncontrolling Interests	14	14
Total Shareholders' Equity	9,137	8,904
Total Liabilities and Shareholders' Equity	$23,758	$23,956

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended	
	December 27, 2014	December 28, 2013
Cash Flows From Operating Activities:		
Net income	$310	$252
Depreciation and amortization	175	127
Deferred income taxes	11	(15)
Convertible debt discount	—	(92)
Other, net	6	22
Net changes in working capital	310	67
Cash Provided by Operating Activities	812	361
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(231)	(140)
Purchases of marketable securities	(10)	(10)
Proceeds from sale of marketable securities	7	9
Proceeds from sale of businesses	142	—
Other, net	3	(3)
Cash Used for Investing Activities	(89)	(144)
Cash Flows From Financing Activities:		
Payments on debt	(668)	(379)
Proceeds from issuance of long-term debt	—	6
Purchases of Tyson Class A common stock	(91)	(159)
Dividends	(37)	(25)
Stock options exercised	16	12
Other, net	5	5
Cash Used for Financing Activities	(775)	(540)
Effect of Exchange Rate Changes on Cash	(5)	3
Decrease in Cash and Cash Equivalents	(57)	(320)
Cash and Cash Equivalents at Beginning of Year	438	1,145
Cash and Cash Equivalents at End of Period	$381	$825

See accompanying Notes to Consolidated Condensed Financial Statements.

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

NOTE 1: ACCOUNTING POLICIES

Basis of Presentation

The consolidated condensed financial statements are unaudited and have been prepared by Tyson Foods, Inc. (“Tyson,” “the Company,” “we,” “us” or “our”). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations of the United States Securities and Exchange Commission. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended September 27, 2014. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of December 27, 2014, and the results of operations for the three months ended December 27, 2014, and December 28, 2013. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

Consolidation

The consolidated condensed financial statements include the accounts of all wholly-owned subsidiaries, as well as majority-owned subsidiaries over which we exercise control and, when applicable, entities for which we have a controlling financial interest or variable interest entities for which we are the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue. The guidance also modifies the related disclosure requirements, clarifies guidance for multiple-element arrangements and provides guidance for transactions that were not addressed fully in previous guidance. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. Early adoption is not permitted. The Company is currently evaluating the impact this guidance will have on our consolidated condensed financial statements.

NOTE 2: ACQUISITIONS AND DISPOSITIONS

Acquisitions

On August 28, 2014, we acquired all of the outstanding stock of The Hillshire Brands Company ("Hillshire Brands") as part of our strategic expansion initiative. The purchase price was equal to $63.00 per share for Hillshire Brands' outstanding common stock, or $8,081 million. In addition, we paid $163 million in cash for breakage costs incurred by Hillshire Brands related to a previously announced acquisition. We funded the acquisition with existing cash on hand, net proceeds from the issuance of new senior notes, Class A common stock (Class A stock), and tangible equity units as well as borrowings under a new term loan facility (refer to Note 6: Debt and Note 7: Equity). Hillshire Brands' results from operations subsequent to the acquisition closing are included in the Prepared Foods segment.

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The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date. Certain estimated values for the acquisition, including goodwill, intangible assets, plant property and equipment, and deferred taxes, are not yet finalized and the preliminary purchase price allocations are subject to change as we complete our analysis of the fair value at the date of acquisition. The purchase price was allocated based on information available at acquisition date. During the quarter ended December 27, 2014, we recorded measurement period adjustments, which reduced goodwill by $5 million, after obtaining additional information regarding, among other things, asset valuations and liabilities assumed. The amount was not considered material and therefore prior periods have not been revised.

	in millions
Cash and cash equivalents	$72
Accounts receivable	236
Inventories	418
Other current assets	343
Property, Plant and Equipment	1,303
Goodwill	4,799
Intangible Assets	5,141
Other Assets	66
Accounts payable	(347)
Other current liabilities	(328)
Long-Term Debt	(869)
Deferred Income Taxes	(2,072)
Other Liabilities	(518)
Net assets acquired	$8,244

The fair value of identifiable intangible assets is as follows (in millions):

Intangible Asset Category	Type	Life in Years	Fair Value
Brands & trademarks	Non-amortizable	Indefinite	$4,062
Brands & trademarks	Amortizable	20 years	532
Customer relationships	Amortizable	Weighted average life of 16 years	541
Non-compete agreements	Amortizable	1 year	6
Total identifiable intangible assets			$5,141

As a result of the acquisition, we recognized a total of $4,799 million of goodwill. The purchase price was assigned to assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition, and any excess was allocated to goodwill, as shown in the table above. Goodwill represents the value we expect to achieve through the implementation of operational synergies and growth opportunities primarily in our Prepared Foods segment. The allocation of goodwill to our reporting units is pending finalization of the expected synergies and the impact of the synergies to our reporting units. We do not expect the final fair value of goodwill to be deductible for U.S. income tax purposes.

We used various valuation techniques to determine fair value, with the primary techniques being discounted cash flow analysis, relief-from-royalty and excess earnings valuation approaches, each of which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.

The acquisition of Hillshire Brands was accounted for using the acquisition method of accounting, and consequently, the results of operations for Hillshire Brands are reported in our consolidated condensed financial statements from the date of acquisition.

The following pro forma information presents the combined results of operations as if the acquisition of Hillshire Brands had occurred at the beginning of fiscal 2013. Hillshire Brands' pre-acquisition results have been added to our historical results. The pro forma results contained in the following table include adjustments for amortization of

acquired intangibles, depreciation expense, interest expense related to the financing and related income taxes. Any potential cost savings or other operational efficiencies that could result from the acquisition are not included in these pro forma results.

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The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations as they would have been had the acquisition occurred on the assumed date, nor is it necessarily an indication of future operating results. The pro forma results for the three months ended December 28, 2013 include a nonrecurring tax benefit of $46 million recognized by Hillshire Brands primarily related to the release of valuation allowances on state deferred tax assets.

in millions

	December 28, 2013
Pro forma sales	$9,817
Pro forma net income from continuing operations attributable to Tyson	$338
Pro forma net income per diluted share from continuing operations attributable to Tyson	$0.81

Additionally, during the second quarter of fiscal 2014 we acquired a value-added food business as part of our strategic expansion initiative, which is included in our Prepared Foods segment. The aggregate purchase price of the acquisition was $56 million, which included $12 million for Property, Plant and Equipment, $27 million allocated to Intangible Assets and $18 million allocated to Goodwill.

Dispositions

In fiscal 2014, we announced our plan to sell our Brazil and Mexico operations, which are included in our International segment, to JBS SA ("JBS") for a combined $575 million in cash, subject to certain adjustments. As a result, we conducted an impairment test and recorded a $39 million impairment charge in the fourth quarter of fiscal 2014 related to our Brazil operation. We completed the sale of the Brazil operation in the first quarter of fiscal 2015 for proceeds of $130 million with additional proceeds expected in the second quarter of fiscal 2015 related to the working capital and net debt adjustments. The sale did not result in a significant gain or loss as the carrying value of the Brazil operation approximated the sales proceeds at the time of sale. The assets and liabilities associated with Brazil were classified as held for sale on the balance sheet at September 27, 2014. We expect to realize a gain on the sale of our Mexico operation, which is pending the necessary government approvals, and expect it to close in the second quarter of fiscal 2015. The assets and liabilities related to Mexico are classified as held for sale on the balance sheet at December 27, 2014 and September 27, 2014.

The following table summarizes the net assets and liabilities held for sale (in millions):

	December 27, 2014	September 27, 2014
Assets held for sale:		
Accounts receivable, net	$23	$74
Inventories	77	141
Other current assets	17	72
Net property, plant and equipment	76	132
Goodwill	14	16
Other assets	6	11
Total assets held for sale	$213	$446
Liabilities held for sale:		
Current debt	$—	$32
Accounts payable	33	61
Other current liabilities	12	27
Long-term debt	—	9
Deferred income taxes	8	12
Other Liabilities	1	—
Total liabilities held for sale	$54	$141

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In fiscal 2014, we sold our 50 percent ownership interest of Dynamic Fuels LLC (Dynamic Fuels) for $30 million cash consideration at closing and up to $35 million in future cash payments contingent on Dynamic Fuels' production volumes over a period of up to 11.5 years. Additionally as part of the terms of the sale, we were released from our guarantee of the $100 million Gulf Opportunity Zone tax-exempt bonds, which were issued in October 2008 to fund a portion of the plant construction costs. Dynamic Fuels previously qualified as a variable interest entity which we consolidated, as we were the primary beneficiary. As a result of the sale, we deconsolidated Dynamic Fuels and recorded a gain of approximately $3 million in the third quarter of fiscal 2014. We will recognize the future contingent payments in income as the required volumes are produced.

In fiscal 2014, we recorded impairment charges of $52 million related to the planned closure of three Prepared Foods plants. The Company’s Cherokee, Iowa plant closed in September 2014, the Buffalo, New York plant closed in January 2015, and the Santa Teresa, New Mexico plant is expected to close during the first half of calendar 2015. Additionally, in April 2014, Hillshire Brands announced that it would discontinue all production at its Florence, Alabama plant. The plant closed in December 2014 and the closure costs did not have a significant impact on the Company's financial results.

NOTE 3: INVENTORIES

Processed products, livestock and supplies and other are valued at the lower of cost or market. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories. At December 27, 2014, 67% of the cost of inventories was determined by the first-in, first-out ("FIFO") method as compared to 66% at September 27, 2014. The remaining cost of inventories for both years is determined by the weighted-average method.

The following table reflects the major components of inventory (in millions):

	December 27, 2014	September 27, 2014
Processed products	$1,703	$1,794
Livestock	1,073	1,066
Supplies and other	416	414
Total inventory	$3,192	$3,274

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

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

	December 27, 2014	September 27, 2014
Land	$126	$126
Buildings and leasehold improvements	3,558	3,501
Machinery and equipment	6,204	6,144
Land improvements and other	278	276
Buildings and equipment under construction	409	334
	10,575	10,381
Less accumulated depreciation	5,364	5,251
Net property, plant and equipment	$5,211	$5,130

NOTE 5: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	December 27, 2014	September 27, 2014
Accrued salaries, wages and benefits	$349	$490
Other	808	717
Total other current liabilities	$1,157	$1,207

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NOTE 6: DEBT

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

	December 27, 2014	September 27, 2014
Revolving credit facility	$—	$—
Senior notes:		
2.75% Senior notes due September 2015 (2015 Notes)	405	407
6.60% Senior notes due April 2016 (2016 Notes)	638	638
7.00% Notes due May 2018	120	120
2.65% Notes due August 2019 (2019 Notes)	1,000	1,000
4.10% Notes due September 2020 (2020 Notes)	286	287
4.50% Senior notes due June 2022 (2022 Notes)	1,000	1,000
3.95% Notes due August 2024 (2024 Notes)	1,250	1,250
7.00% Notes due January 2028	18	18
6.13% Notes due November 2032 (2032 Notes)	164	164
4.88% Notes due August 2034 (2034 Notes)	500	500
5.15% Notes due August 2044 (2044 Notes)	500	500
Discount on senior notes	(11)	(12)
Term loan facility:		
3-year tranche (1.56% at 12/27/2014)	872	1,172
5-year tranche A	—	353
5-year tranche B (1.69% at 12/27/2014)	552	552
Amortizing Notes - Tangible Equity Units (see Note 7: Equity)	192	205
Other	41	24
Total debt	7,527	8,178
Less current debt	596	643
Total long-term debt	$6,931	$7,535

Revolving Credit Facility

We have a $1.25 billion revolving credit facility that supports short-term funding needs and letters of credit. The facility will mature and the commitments thereunder will terminate in September 2019. After reducing the amount available by outstanding letters of credit issued under this facility, the amount available for borrowing at December 27, 2014, was $1,245 million. At December 27, 2014, we had outstanding letters of credit issued under this facility totaling $5 million, none of which were drawn upon. We had an additional $102 million of bilateral letters of credit issued separately from the revolving credit facility, none of which were drawn upon. Our letters of credit are issued primarily in support of workers' compensation insurance programs and derivative activities.

The revolving credit facility is unsecured and is fully guaranteed by Tyson Fresh Meats, Inc. (TFM Parent), our wholly owned subsidiary, until such date TFM Parent is released from all of its guarantees of other material indebtedness. If in the future any of our other subsidiaries shall guarantee any of our material indebtedness, such subsidiary shall also be required to guarantee the indebtedness, obligations and liabilities under this facility.

2019 / 2024 / 2034 / 2044 Notes

In August 2014, we issued senior unsecured notes with an aggregate principal amount of $3,250 million, consisting of $1,000 million due August 2019, $1,250 million due August 2024, $500 million due August 2034, and $500 million due August 2044. The 2019 Notes, 2024 Notes, 2034 Notes, and 2044 Notes carry interest rates of 2.65%, 3.95%, 4.88% and 5.15%, respectively, with interest payments due semi-annually on August 15 and February 15. After the original issue discounts of $7 million, we received net proceeds of $3,243 million. In addition, we incurred offering expenses of $27 million.

Term Loan Facility

In August 2014, we borrowed under an unsecured term loan facility, which provided for total term loans in an aggregate principal amount of $2,300 million, consisting of a $1,202 million 3-year tranche facility, a $546 million

5-year tranche A facility, and a $552 million 5-year tranche B facility. The principal of the 3-year tranche facility amortizes at 2.5% per quarter. Interest is reset based on the selected LIBOR interest period plus 1.375% for the 3-year tranche facility and 1.50% for the 5-year tranche B facility. In addition, we incurred term loan issuance costs of approximately $11 million.

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2015 / 2020 / 2032 Notes

In August 2014 and in connection with our acquisition of Hillshire Brands, we assumed $840 million of Hillshire Brands' debt, which had an estimated fair value of approximately $868 million as of the acquisition date. We recorded the assumed debt at fair value. The fair value adjustment is being amortized and recorded as a reduction of interest expense. The debt assumed is mainly comprised of senior unsecured notes which consist of $400 million due September 2015, $278 million due September 2020, and $152 million due November 2032. The 2015 Notes, 2020 Notes, and the 2032 Notes carry interest rates of 2.75%, 4.10%, and 6.13%, respectively.

Debt Covenants

Our revolving credit and term loan facilities contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens and encumbrances; incur debt; merge, dissolve, liquidate or consolidate; make acquisitions and investments; dispose of or transfer assets; change the nature of our business; engage in certain transactions with affiliates; and enter into hedging transactions, in each case, subject to certain qualifications and exceptions. In addition, we are required to maintain minimum interest expense coverage and maximum debt-to-capitalization ratios.

Our senior notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens; engage in certain sale/leaseback transactions; and engage in certain consolidations, mergers and sales of assets.

We were in compliance with all debt covenants at December 27, 2014.

NOTE 7: EQUITY

Share Repurchases

In fiscal 2014, our Board of Directors approved an increase of 25 million shares authorized for repurchase under our share repurchase program. As of December 27, 2014, 30.1 million shares remained available for repurchases under this program. The share repurchase program has no fixed or scheduled termination date and the timing and extent to which we repurchase shares will depend upon, among other things, our working capital needs, markets, industry conditions, liquidity targets, limitations under our debt obligations and regulatory requirements. In addition to the share repurchase program, we purchase shares on the open market to fund certain obligations under our equity compensation plans.

A summary of cumulative share repurchases of our Class A stock is as follows (in millions):

	Three Months Ended			
	December 27, 2014		December 28, 2013	
	Shares	Dollars	Shares	Dollars
Shares repurchased:				
Under share repurchase program	2.0	$81	4.6	$150
To fund certain obligations under equity compensation plans	0.2	10	0.3	9
Total share repurchases	2.2	$91	4.9	$159

Share Issuance

In fiscal 2014, we issued 23.8 million shares of our Class A stock to provide funding for the Hillshire Brands acquisition. Total proceeds, net of underwriting discounts and other offering related fees and expenses were $873 million.

Tangible Equity Units

In fiscal 2014, we completed the public issuance of 30 million 4.75% tangible equity units (TEUs). Total proceeds, net of underwriting discounts and other expenses, were $1,454 million. Each TEU, which has a stated amount of $50, is comprised of a prepaid stock purchase contract and a senior amortizing note due July 15, 2017. We allocated the proceeds from the issuance of the TEUs to equity and debt based on the relative fair values of the respective components of each TEU. The fair value of the prepaid stock purchase contracts, which was $1,295 million, is recorded in Capital in Excess of Par Value, net of issuance costs. The fair value of the senior amortizing notes, which was $205 million, was recorded in debt, of which $65 million was current. Issuance costs associated with the TEU debt were recorded as deferred financing costs in the Consolidated Condensed Balance Sheets in Other Assets and are

amortized over the term of the instrument to July 15, 2017.

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The aggregate values assigned upon issuance of each component of the TEU's, based on the relative fair value of the respective components of each TEU, were as follows (in millions, except price per TEU):

	Equity Component	Debt Component	Total
Price per TEU	$43.17	$6.83	$50.00
Gross Proceeds	1,295	205	1,500
Issuance cost	(40)	(6)	(46)
Net proceeds	$1,255	$199	$1,454

Each senior amortizing note has an initial principal amount of $6.83 and bears interest at 1.5% per annum. On each January 15, April 15, July 15 and October 15, commencing on October 15, 2014, we will pay equal quarterly cash installments of $0.59 per amortizing note (except for the October 15, 2014 installment payment, which was $0.46 per amortizing note), which cash payment in the aggregate (principal and interest) is equivalent to 4.75% per year with respect to the $50 stated amount per TEU. Each installment will constitute a payment of interest and partial repayment of principal. Unless settled earlier at the holder's or the Company's option, each purchase contract will automatically settle on July 15, 2017, subject to postponement in certain limited circumstances. We will deliver between a minimum of 31.8 million shares and a maximum of 39.7 million shares of our Class A stock, subject to adjustment, based upon the Applicable Market Value (as defined below) of our Class A stock as described below:

- If the Applicable Market Value is equal to or greater than the conversion price of $47.22 per share, we will deliver 1.0588 shares of Class A stock per purchase contract, or a minimum of 31.8 million Class A shares.
- If the Applicable Market Value is greater than the reference price of $37.78 but less than the conversion price of $47.22 per share, we will deliver a number of shares per purchase contract equal to $50, divided by the Applicable Market Value.
- If the Applicable Market Value is less than or equal to the reference price of $37.78 per share, we will deliver 1.3236 shares of Class A stock per purchase contract, or a maximum of 39.7 million Class A shares.

The "Applicable Market Value" means the average of the closing prices of our Class A stock on each of the 20 consecutive trading days beginning on, and including, the 23rd scheduled trading day immediately preceding July 15, 2017.

On December 15, 2014, we paid our quarterly dividend to shareholders of record at December 1, 2014 equal to $0.10 per share on our Class A common stock. The amount of the distribution exceeded the dividend threshold amount; which is $0.075 per share. Consequently, the settlements rates, reference price and conversion price were adjusted to reflect this change.

The TEUs have a dilutive effect on our earnings per share. The 31.8 million minimum shares to be issued are included in the calculation of Class A Basic weighted average shares. The 7.9 million share difference between the minimum shares and the 39.7 million maximum shares are potentially dilutive securities, and accordingly, are included in our diluted earnings per share on a pro rata basis to the extent the Applicable Market Value is higher than the reference price but is less than the conversion price at period end.

NOTE 8: INCOME TAXES

The effective tax rate was 28.8% and 34.3% for the first quarter of fiscal 2015 and 2014, respectively. The effective tax rates for the first quarter of fiscal 2015 and fiscal 2014 were impacted by such items as the domestic production deduction, state income taxes and losses in foreign jurisdictions for which no benefit is recognized. In addition, changes in tax reserves resulting from the expiration of statutes of limitations reduced the effective tax rate for the first quarter of fiscal 2015 by 6.5%.

Unrecognized tax benefits were $239 million and $272 million at December 27, 2014, and September 27, 2014, respectively. The amount of unrecognized tax benefits, if recognized, that would impact our effective tax rate was $209 million and $241 million at December 27, 2014, and September 27, 2014, respectively.

We classify interest and penalties on unrecognized tax benefits as income tax expense. At December 27, 2014, and September 27, 2014, before tax benefits, we had $52 million and $54 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

We are subject to income tax assessments for U.S. federal income taxes for fiscal years 2011 through 2013. We are also subject to income tax assessments by major state and foreign jurisdictions for fiscal years 2005 through 2013 and 2002 through 2013, respectively. We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease up to $5 million primarily due to expiration of statutes of limitations in various jurisdictions.

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NOTE 9: OTHER INCOME AND CHARGES

During the first quarter of fiscal 2015, we recorded $1 million of equity earnings in joint ventures, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

During the first quarter of fiscal 2014, we recorded $2 million of equity earnings in joint ventures, $1 million in net foreign currency exchange gains and $6 million of other than temporary impairment related to an available-for-sale security, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

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	
	December 27, 2014	December 28, 2013
Numerator:		
Net Income	$310	$252
Less: Net income (loss) attributable to noncontrolling interests	1	(2)
Net income attributable to Tyson	309	254
Less dividends declared:		
Class A	38	28
Class B	8	6
Undistributed earnings	$263	$220
Class A undistributed earnings	$221	$179
Class B undistributed earnings	42	41
Total undistributed earnings	$263	$220
Denominator:		
Denominator for basic earnings per share:		
Class A weighted average shares	336	271
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70
Effect of dilutive securities:		
Stock options and restricted stock	5	5
Tangible Equity Units	5	—
Warrants	—	8
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	416	354
Net Income Per Share Attributable to Tyson:		
Class A Basic	$0.77	$0.76
Class B Basic	$0.71	$0.68
Diluted	$0.74	$0.72

Approximately 6 million and 5 million of our stock-based compensation shares were antidilutive for the three months ended December 27, 2014 and December 28, 2013, respectively. These shares were not included in the diluted earnings per share calculation.

We have two classes of capital stock, Class A stock and Class B stock. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of cash dividends paid to holders of Class B stock cannot exceed 90% of the cash dividends paid to holders of Class A stock.

We allocate undistributed earnings based upon a 1 to 0.9 ratio per share to Class A stock and Class B stock, respectively. We allocate undistributed earnings based on this ratio due to historical dividend patterns, voting control of Class B shareholders and contractual limitations of dividends to Class B stock.

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NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

Our business operations give rise to certain market risk exposures mostly due to changes in commodity prices, foreign currency exchange rates and interest rates. We manage a portion of these risks through the use of derivative financial instruments, primarily futures and options, to reduce our exposure to commodity price risk, foreign currency risk and interest rate risk. Forward contracts on various commodities, including grains, livestock and energy, are primarily entered into to manage the price risk associated with forecasted purchases of these inputs used in our production processes. Foreign exchange forward contracts are entered into to manage the fluctuations in foreign currency exchange rates, primarily as a result of certain receivable and payable balances. We also periodically utilize interest rate swaps to manage interest rate risk associated with our variable-rate borrowings.

Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored, using Value-at-Risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit-worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at December 27, 2014.

We recognize all derivative instruments as either assets or liabilities at fair value in the Consolidated Condensed Balance Sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument based upon the exposure being hedged (i.e., cash flow hedge or fair value hedge). We qualify, or designate, a derivative financial instrument as a hedge when contract terms closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. If a derivative instrument is accounted for as a hedge, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) (OCI) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized in earnings immediately. We designate certain forward contracts as follows:

- Cash Flow Hedges - include certain commodity forward and option contracts of forecasted purchases (i.e., grains) and certain foreign exchange forward contracts.
- Fair Value Hedges - include certain commodity forward contracts of firm commitments (i.e., livestock).

Cash Flow Hedges

Derivative instruments, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. We do not purchase forward and option commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 18 months. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of Other Comprehensive Income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three months ended December 27, 2014, and December 28, 2013.

We had the following aggregated notional values of outstanding forward and option contracts accounted for as cash flow hedges (in millions, except soy meal tons):

	Metric	December 27, 2014	September 27, 2014
Commodity:			

Corn	Bushels	—	—
Soy meal	Tons	800	2,300
Foreign Currency	United States dollar	$—	$1

As of December 27, 2014, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $1 million related to grains. During the three months ended December 27, 2014, and December 28, 2013, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges due to the probability the original forecasted transaction would not occur by the end of the originally specified time period or within the additional period of time allowed by generally accepted accounting principles.

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The following table sets forth the pretax impact of cash flow hedge derivative instruments on the Consolidated Condensed Statements of Income (in millions):

	Gain/(Loss) Recognized in OCI On Derivatives Three Months Ended		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings Three Months Ended	
	December 27, 2014	December 28, 2013		December 27, 2014	December 28, 2013
Cash Flow Hedge – Derivatives designated as hedging instruments:					
Commodity contracts	$—	$(2)	Cost of Sales	$(3)	$—
Foreign exchange contracts	—	(1)	Other Income/Expense	—	—
Total	$—	$(3)		$(3)	$—

Fair Value Hedges

We designate certain futures contracts as fair value hedges of firm commitments to purchase livestock for slaughter. Our objective of these hedges is to minimize the risk of changes in fair value created by fluctuations in commodity prices associated with fixed price livestock firm commitments. We had the following aggregated notional values of outstanding forward contracts entered into to hedge firm commitments which are accounted for as a fair value hedge (in millions):

	Metric	December 27, 2014	September 27, 2014
Commodity:			
Live Cattle	Pounds	442	427
Lean Hogs	Pounds	224	329

For these derivative instruments we designate and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in earnings in the same period. We include the gain or loss on the hedged items (i.e., livestock purchase firm commitments) in the same line item, Cost of Sales, as the offsetting gain or loss on the related livestock forward position.

		in millions Three Months Ended	
	Consolidated Condensed Statements of Income Classification	December 27, 2014	December 28, 2013
Gain/(Loss) on forwards	Cost of Sales	$(40)	$(6)
Gain/(Loss) on purchase contract	Cost of Sales	40	6

Ineffectiveness related to our fair value hedges was not significant for the three months ended December 27, 2014, and December 28, 2013.

Undesignated Positions

In addition to our designated positions, we also hold forward and option contracts for which we do not apply hedge accounting. These include certain derivative instruments related to commodities price risk, including grains, livestock, energy and foreign currency risk. We mark these positions to fair value through earnings at each reporting date. We generally do not enter into undesignated positions beyond 18 months.

The objective of our undesignated grains, livestock and energy commodity positions is to reduce the variability of cash flows associated with the forecasted purchase of certain grains, energy and livestock inputs to our production processes. We also enter into certain forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs at fixed prices. The fixed price sales contracts lock in the proceeds from a future sale and the fixed cattle and hog purchases lock in the cost. However, the cost of the livestock and the related boxed beef and boxed pork market prices at the time of the sale or purchase could vary from this fixed price. As we enter into fixed forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs, we also enter into the appropriate number of livestock options and futures positions to mitigate a portion of this risk. Changes in market value of the open livestock options

and futures positions are marked to market and reported in earnings at each reporting date, even though the economic impact of our fixed prices being above or below the market price is only realized at the time of sale or purchase. These positions generally do not qualify for hedge treatment due to location basis differences between the commodity exchanges and the actual locations when we purchase the commodities.

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We have a foreign currency cash flow hedging program to hedge portions of forecasted transactions denominated in foreign currencies, primarily with forward and option contracts, to protect against the reduction in value of forecasted foreign currency cash flows. Our undesignated foreign currency positions generally would qualify for cash flow hedge accounting. However, to reduce earnings volatility, we normally will not elect hedge accounting treatment when the position provides an offset to the underlying related transaction that impacts current earnings.

We had the following aggregate outstanding notional values related to our undesignated positions (in millions, except soy meal tons):

	Metric	December 27, 2014	September 27, 2014
Commodity:			
Corn	Bushels	16	—
Soy Meal	Tons	281,300	195,800
Soy Oil	Pounds	21	3
Live Cattle	Pounds	14	22
Lean Hogs	Pounds	1	22
Foreign Currency	United States dollars	$29	$108

The following table sets forth the pretax impact of the undesignated derivative instruments on the Consolidated Condensed Statements of Income (in millions):

	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Recognized in Earnings	
		Three Months Ended	
		December 27, 2014	December 28, 2013
Derivatives not designated as hedging instruments:			
Commodity contracts	Sales	$(1)	$2
Commodity contracts	Cost of Sales	(26)	(2)
Foreign exchange contracts	Other Income/Expense	(2)	(1)
Total		$(29)	$(1)

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The following table sets forth the fair value of all derivative instruments outstanding in the Consolidated Condensed Balance Sheets (in millions):

	Fair Value	
	December 27, 2014	September 27, 2014
Derivative Assets:		
Derivatives designated as hedging instruments:		
Commodity contracts	$31	$17
Foreign exchange contracts	—	—
Total derivative assets – designated	31	17
Derivatives not designated as hedging instruments:		
Commodity contracts	31	42
Foreign exchange contracts	—	—
Total derivative assets – not designated	31	42
Total derivative assets	$62	$59
Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Commodity contracts	$31	$78
Foreign exchange contracts	—	—
Total derivative liabilities – designated	31	78
Derivatives not designated as hedging instruments:		
Commodity contracts	37	80
Foreign exchange contracts	—	2
Total derivative liabilities – not designated	37	82
Total derivative liabilities	$68	$160

Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. See Note 12: Fair Value Measurements for a reconciliation to amounts reported in the Consolidated Condensed Balance Sheets in Other current assets and Other current liabilities.

NOTE 12: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

Level 1 — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been

determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

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The following tables set forth by level within the fair value hierarchy our financial assets and liabilities accounted for at fair value on a recurring basis according to the valuation techniques we used to determine their fair values (in millions):

December 27, 2014	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Commodity Derivatives	$—	$62	$—	$(34)	$28
Foreign Exchange Forward Contracts	—	—	—	—	—
Available-for-Sale Securities:					
Current	—	2	—	—	2
Non-current	17	28	65	—	110
Deferred Compensation Assets	5	230	—	—	235
Total Assets	$22	$322	$65	$(34)	$375
Liabilities:					
Commodity Derivatives	$—	$68	$—	$(68)	$—
Foreign Exchange Forward Contracts	—	—	—	—	—
Total Liabilities	$—	$68	$—	$(68)	$—

September 27, 2014	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Commodity Derivatives	$—	$59	$—	$(50)	$9
Foreign Exchange Forward Contracts	—	—	—	—	—
Available-for-Sale Securities:					
Current	—	1	—	—	1
Non-current	1	24	67	—	92
Deferred Compensation Assets	15	218	—	—	233
Total Assets	$16	$302	$67	$(50)	$335
Liabilities:					
Commodity Derivatives	$—	$158	$—	$(148)	$10
Foreign Exchange Forward Contracts	—	2	—	—	2
Total Liabilities	$—	$160	$—	$(148)	$12

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At December 27, 2014 and September 27, 2014, we had posted with various counterparties $34 million and $98 million, respectively, of cash collateral related to our commodity derivatives and held no cash collateral.

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The following table provides a reconciliation between the beginning and ending balance of debt securities measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in millions):

	Three Months Ended	
	December 27, 2014	December 28, 2013
Balance at beginning of year	$67	$65
Total realized and unrealized gains (losses):		
Included in earnings	—	—
Included in other comprehensive income (loss)	—	—
Purchases	4	7
Issuances	—	—
Settlements	(6)	(8)
Balance at end of period	$65	$64
Total gains (losses) for the three-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period	$—	$—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Derivative Assets and Liabilities: Our commodities and foreign exchange forward contracts primarily include exchange-traded and over-the-counter contracts which are further described in Note 11: Derivative Financial Instruments. We record our commodity derivatives at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward commodity market prices. Our foreign exchange forward contracts are recorded at fair value based on quoted prices and spot and forward currency prices adjusted for credit and non-performance risk. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges or observable market transactions of spot currency rates and forward currency prices.

Available-for-Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Condensed Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Condensed Balance Sheets and have maturities ranging up to 35 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated condensed financial statements.

The following table sets forth our available-for-sale securities' amortized cost basis, fair value and unrealized gain (loss) by significant investment category (in millions):

	December 27, 2014			September 27, 2014		
	Amortized Cost Basis	Fair Value	Unrealized Gain/(Loss)	Amortized Cost Basis	Fair Value	Unrealized Gain/(Loss)
Available-for-Sale Securities:						
Debt Securities:						
U.S. Treasury and Agency	$29	$30	$1	$25	$25	$—
Corporate and Asset-Backed	65	65	—	65	67	2

Equity Securities:						
Common Stock (a)	1	17	16	1	1	—

(a) At December 27, 2014 and September 27, 2014, the amortized cost basis for Equity Securities had been reduced by accumulated other than temporary impairment of approximately $2 million.

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Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized no other than temporary impairment in earnings for the three months ended December 27, 2014 and $6 million for the three months ended December 28, 2013, which was recorded in the Consolidated Condensed Statements of Income in Other, net. No other than temporary losses were deferred in OCI as of December 27, 2014, and September 27, 2014.

Deferred Compensation Assets: We maintain non-qualified deferred compensation plans for certain executives and other highly compensated employees. Investments are maintained within a trust and include money market funds, mutual funds and life insurance policies. The cash surrender value of the life insurance policies is invested primarily in mutual funds. The investments are recorded at fair value based on quoted market prices and are included in Other Assets in the Consolidated Condensed Balance Sheets. We classify the investments which have observable market prices in active markets in Level 1 as these are generally publicly-traded mutual funds. The remaining deferred compensation assets are classified in Level 2, as fair value can be corroborated based on observable market data. Realized and unrealized gains (losses) on deferred compensation are included in earnings.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We did not have any significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months ended December 27, 2014 and December 28, 2013.

Other Financial Instruments

Fair value of our debt is principally estimated using Level 2 inputs based on quoted prices for those or similar instruments. Fair value and carrying value for our debt are as follows (in millions):

	December 27, 2014		September 27, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total Debt	$7,815	$7,527	$8,347	$8,178

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NOTE 13: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of the net periodic cost for the pension and postretirement benefit plans for the three months ended December 27, 2014 and December 28, 2013 are as follows (in millions):

	Pension Plans Three Months Ended	
	December 27, 2014	December 28, 2013
Service cost	$4	$2
Interest cost	21	2
Expected return on plan assets	(25)	(1)
Amortization of:		
Net actuarial loss	1	1
Settlement loss	8	—
Net periodic cost	$9	$4

	Postretirement Benefit Plans Three Months Ended	
	December 27, 2014	December 28, 2013
Service cost	$1	$—
Interest cost	2	1
Net periodic cost	$3	$1

We contributed $3 million and $2 million to our pension plans for the three months ended December 27, 2014 and December 28, 2013, respectively. We expect to contribute an additional $11 million during the remainder of fiscal 2015. The amount of contributions made to pension plans in any year is dependent upon a number of factors including minimum funding requirements in the jurisdictions in which we operate. As a result, the actual funding in fiscal 2015 may differ from the current estimate.

NOTE 14: OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax changes in the components of other comprehensive income (loss) are as follows (in millions):

	Three Months Ended					
	December 27, 2014			December 28, 2013		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Derivatives accounted for as cash flow hedges:						
(Gain) loss reclassified to Cost of Sales	$3	$(2)	$1	$—	$—	$—
Unrealized gain (loss)	—	—	—	(3)	1	(2)
Investments:						
(Gain) loss reclassified to Other Income/Expense	—	—	—	6	(2)	4
Unrealized gain (loss)	15	(6)	9	(1)	—	(1)
Currency translation:						
Translation loss reclassified to Cost of Sales (a)	37	(1)	36	—	—	—
Translation adjustment	(37)	7	(30)	(11)	—	(11)
Postretirement benefits	9	(2)	7	1	1	2

Total Other Comprehensive Income (Loss)	$27	$(4)	$23	$(8)	$—	$(8)

(a) Translation loss reclassified to Cost of Sales related to disposition of a foreign operation, which is further described in Note 2: Acquisitions and Dispositions.

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NOTE 15: SEGMENT REPORTING

We operate in five segments: Chicken, Beef, Pork, Prepared Foods and International. We measure segment profit as operating income (loss).

During the second quarter of fiscal 2014, we began reporting our International operation as a separate segment, which was previously included in our Chicken segment. Our International segment became a separate reportable segment as a result of changes to our internal financial reporting to align with previously announced executive leadership changes. All periods presented have been reclassified to reflect this change. Beef, Pork, Prepared Foods and Other results were not impacted by this change.

Chicken: Chicken includes our domestic operations related to raising and processing live chickens into fresh, frozen and value-added chicken products, as well as sales from allied products. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets. This segment also includes logistics operations to move products through our domestic supply chain and the global operations of our chicken breeding stock subsidiary.

Beef: Beef includes our operations related to processing live fed cattle and fabricating dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets. This segment also includes sales from allied products such as hides and variety meats, as well as logistics operations to move products through the supply chain.

Pork: Pork includes our operations related to processing live market hogs and fabricating pork carcasses into primal and sub-primal cuts and case-ready products. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets. This segment also includes our live swine group, related allied product processing activities and logistics operations to move products through the supply chain.

Prepared Foods: Prepared Foods includes our operations related to manufacturing and marketing frozen and refrigerated food products and logistics operations to move products through the supply chain. Products primarily include pepperoni, bacon, sausage, beef and pork pizza toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes, breadsticks and processed meats. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets.

In fiscal 2014, we acquired Hillshire Brands, a manufacturer and marketer of branded, convenient foods which includes brands such as Jimmy Dean®, Ball Park®, Hillshire Farm®, State Fair®, Van's®, Sara Lee® frozen bakery and Chef Pierre® pies as well as artisanal brands Aidells®, Gallo Salame®, and Golden Island® premium jerky. Hillshire Brands' results from operations for the first quarter of fiscal 2015 are included in the Prepared Foods segment.

International: International includes our foreign operations primarily related to raising and processing live chickens into fresh, frozen and value-added chicken products in Brazil, China, India and Mexico. Products are marketed in each respective country to food retailers, foodservice distributors, restaurant operators, hotel chains, noncommercial foodservice establishments and live markets, as well as to other international export markets.

In fiscal 2014, we announced our plan to sell our Brazil and Mexico operations, part of our International segment, to JBS for $575 million in cash, subject to certain adjustments. As further described in Note 2: Acquisitions and Dispositions, we sold our Brazil operations in the first quarter of fiscal 2015. The sale of our Mexico operation is pending the necessary government approvals and is expected to close in the second quarter of fiscal 2015.

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The results from Dynamic Fuels are included in Other in fiscal 2014. We allocate expenses related to corporate activities to the segments, except for third-party acquisition and integration costs which are included in Other of $15 million.

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

	Three Months Ended	
	December 27, 2014	December 28, 2013
Sales:		
Chicken	$2,780	$2,656
Beef	4,391	3,734
Pork	1,540	1,424
Prepared Foods	2,133	907
International	305	327
Other	—	—
Intersegment Sales	(332)	(287)
Total Sales	$10,817	$8,761
Operating Income (Loss):		
Chicken	$351	$253
Beef	(6)	58
Pork	122	121
Prepared Foods	71	16
International	(14)	(28)
Other	(15)	(8)
Total Operating Income	509	412
Total Other (Income) Expense	74	29
Income before Income Taxes	$435	$383

The Chicken segment had sales of $1 million and $2 million in the first quarter of fiscal 2015 and 2014, respectively, from transactions with other operating segments of the Company. The Beef segment had sales of $78 million and $63 million in the first quarter of fiscal 2015 and 2014, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of $253 million and $222 million in the first quarter of fiscal 2015 and 2014, respectively, from transactions with other operating segments of the Company. The aforementioned sales from intersegment transactions, which were at market prices, were included in the segment sales in the above table.

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NOTE 16: COMMITMENTS AND CONTINGENCIES

Commitments

We guarantee obligations of certain outside third parties, consisting primarily of leases and grower loans, which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to 10 years, and the maximum potential amount of future payments as of December 27, 2014, was $62 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The remaining terms of the lease maturities cover periods over the next 13 years. The maximum potential amount of the residual value guarantees is $53 million, of which $47 million could be recoverable through various recourse provisions and an additional undeterminable recoverable amount based on the fair value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At December 27, 2014, and September 27, 2014, no material liabilities for guarantees were recorded.

We have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier’s net tangible assets. The potential maximum obligation as of December 27, 2014, was approximately $330 million. We had no receivables under these programs at December 27, 2014 and $4 million at September 27, 2014. These receivables are included, net of allowance for uncollectible amounts, in Accounts Receivable in our Consolidated Condensed Balance Sheets. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers’ assets. After analyzing residual credit risks and general market conditions, we have no allowance for these programs’ estimated uncollectible receivables at December 27, 2014, and September 27, 2014.

Contingencies

We are involved in various claims and legal proceedings. We routinely assess the likelihood of adverse judgments or outcomes to those matters, as well as ranges of probable losses, to the extent losses are reasonably estimable. We record accruals for such matters to the extent that we conclude a loss is probable and the financial impact, should an adverse outcome occur, is reasonably estimable. Such accruals are reflected in the Company’s consolidated condensed financial statements. In our opinion, we have made appropriate and adequate accruals for these matters and believe the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if accruals are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations. Listed below are certain claims made against the Company and/or our subsidiaries for which the potential exposure is considered material to the Company’s consolidated condensed financial statements. We believe we have substantial defenses to the claims made and intend to vigorously defend these matters.

There are seven pending lawsuits involving our beef, pork and prepared foods plants, in which certain present and past employees allege that we failed to compensate them for the time it takes to engage in pre- and post-shift activities, such as changing into and out of protective and sanitary clothing and walking to and from the changing area, work areas and break areas in violation of the Fair Labor Standards Act and various state laws. The plaintiffs seek back wages, liquidated damages, pre- and post-judgment interest, attorneys’ fees and costs. Each case is proceeding in its jurisdiction.

- Garcia, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., D. Kansas, May 15, 2006 - After a trial involving our Garden City, Kansas beef plant, a jury verdict in favor of the plaintiffs was entered on March 17, 2011. Exclusive of pre- and post-judgment interest, attorneys’ fees and costs, the jury found violations of federal and state laws for pre- and post-shift work activities and awarded damages in the amount of $503,011. Plaintiffs’ counsel filed an application for attorneys’ fees and expenses which we contested. On December 7, 2012, the court granted plaintiffs' counsel's application and awarded a total of $3,609,723. We appealed the jury’s verdict and trial court’s award to the Tenth

Circuit Court of Appeals. The appellate court affirmed the jury verdict and judgment and subsequently denied our petition for rehearing. We subsequently paid the judgment.

- Bouaphakeo (f/k/a Sharp), et al. v. Tyson Foods, Inc., N.D. Iowa, February 6, 2007 - A jury trial was held involving our Storm Lake, Iowa pork plant which resulted in a jury verdict in favor of the plaintiffs for violations of federal and state laws for pre- and post-shift work activities. The trial court also awarded the plaintiffs liquidated damages, resulting in total damages awarded in the amount of $5,784,758. The plaintiffs' counsel has also filed an application for attorneys' fees and expenses in the amount of $2,692,145. We appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals. The appellate court affirmed the jury verdict and judgment on August 25, 2014, and we filed a petition for rehearing on September 22, 2014, which was denied.

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- Acosta, et al. v Tyson Foods, Inc. dba Tyson Fresh Meats, Inc., D. Nebraska, February 29, 2008 - A bench trial was held involving our Madison, Nebraska pork plant, in January 2013. In May 2013 the trial court awarded the plaintiffs $5,733,943 for unpaid overtime wages. Subsequently, the court ordered the class of plaintiffs expanded, and the plaintiffs submitted an updated calculation of $6,258,330 for unpaid overtime wages as reflected by payroll data through May 2013. On January 30, 2014, the trial court entered judgment in favor of the plaintiffs in the amount of $18,774,989, which represents a tripling of the plaintiffs' alleged damages. The court denied our post-trial motions, and we appealed to the Eighth Circuit Court of Appeals. Oral argument was held before the appellate court on January 15, 2015.
- Gomez, et al. v. Tyson Foods, Inc., D. Nebraska, January 16, 2008 - A jury trial involving our Dakota City, Nebraska beef plant, was held, and the jury found in favor of the plaintiffs on April 3, 2013. On October 2, 2013, the trial court denied the parties' post-trial motions and entered judgment awarding unpaid overtime wages, liquidated damages, and penalties totaling $4,960,787. We appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals. Oral argument was held before the appellate court on January 15, 2015.
- Edwards, et al. v. Tyson Foods, Inc. dba Tyson Fresh Meats, Inc., S.D. Iowa, March 20, 2008 - The trial court in this case, which involves our Perry and Waterloo, Iowa pork plants, decertified the state law class and granted other pre-trial motions that resulted in judgment in our favor with respect to the plaintiffs' claims. The plaintiffs have filed a motion to modify this judgment.
- Abdiaziz, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., D. Kansas, September 30, 2011 - This case involves our Emporia, Kansas beef plant, and was bifurcated from the case involving our Garden City, Kansas beef plant. It is presently stayed.
- Murray, et al. v. Tyson Foods, Inc., C.D. Illinois, January 2, 2008; and DeVoss v. Tyson Foods, Inc. d.b.a. Tyson Fresh Meats, C.D. Illinois, March 2, 2011 - These cases involve our Joslin, Illinois beef plant and are in their preliminary stages.
- Dozier, Southerland, et al. v. Hillshire Brands, Co., Inc. E.D. North Carolina, September 2, 2014 - This case involves our Tarboro, N.C. prepared foods plant and is in its preliminary stages.

Our subsidiary, The Hillshire Brands Company (formerly named Sara Lee Corporation), is a party to a consolidation of cases filed by individual complainants with the Republic of the Philippines, Department of Labor and Employment and the National Labor Relations Commission (NLRC) from 1998 through July 1999. The complaint is filed against Aris Philippines, Inc., Sara Lee Corporation, Sara Lee Philippines, Inc., Fashion Accessories Philippines, Inc., and Attorney Cesar C. Cruz (collectively, the "respondents"). The complaint primarily alleges unfair labor practices due to the termination of manufacturing operations in the Philippines by Aris Philippines, Inc., a former subsidiary of The Hillshire Brands Company. In 2006, the arbitrator ruled against the respondents and awarded the complainants PHP3,453,664,710 (approximately US$76 million) in damages and fees. The respondents appealed this ruling and it was subsequently set aside by the NLRC in December 2006. However, in a decision dated June 4, 2014, the Supreme Court of the Philippines set aside the NLRC's December 2006 ruling as premature. The parties have filed numerous appeals, motions for reconsideration and petitions for review in these cases as to the merits of complainants' claims and the appropriate amount of an appeal bond to be posted by the respondents. Certain of these appeals and motions remain pending before the NLRC and Supreme Court of the Philippines. On June 23, 2014, without admitting liability, The Hillshire Brands Company filed a motion requesting that the Supreme Court of the Philippines order dismissal with prejudice of all claims against it and its predecessors-in-interest in exchange for payments allocated by the court among the complainants in an amount not to exceed PHP342,287,800 (approximately US$7 million).

NOTE 17: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

TFM Parent, our wholly-owned subsidiary, has fully and unconditionally guaranteed the 2016 Notes. Additionally, TFM Parent has fully and unconditionally guaranteed the 2022 Notes until such date TFM Parent has been released of its guarantee of both (i) Tyson's $1.25 billion revolving credit facility and (ii) the 2016 Notes, at which time TFM Parent's guarantee of the 2019, 2022, 2024, 2034 and 2044 Notes is permanently released. The following financial information presents condensed consolidating financial statements, which include Tyson Foods, Inc. (TFI Parent); TFM Parent; the Non-Guarantors Subsidiaries (Non-Guarantors) on a combined basis; the elimination entries necessary to consolidate TFI Parent, TFM Parent and the Non-Guarantors; and Tyson Foods, Inc. on a consolidated

basis, and is provided as an alternative to providing separate financial statements for the guarantor.

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Condensed Consolidating Statement of Income and Comprehensive Income for the three months ended December 27, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$228	$5,809	$5,325	$(545)	$10,817
Cost of Sales	19	5,662	4,722	(542)	9,861
Gross Profit	209	147	603	(3)	956
Selling, General and Administrative	34	61	355	(3)	447
Operating Income	175	86	248	—	509
Other (Income) Expense:					
Interest expense, net	69	—	6	—	75
Other, net	(1)	—	—	—	(1)
Equity in net earnings of subsidiaries	(237)	(38)	—	275	—
Total Other (Income) Expense	(169)	(38)	6	275	74
Income (Loss) before Income Taxes	344	124	242	(275)	435
Income Tax (Benefit) Expense	35	30	60	—	125
Net Income	309	94	182	(275)	310
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	1	—	1
Net Income Attributable to Tyson	$309	$94	$181	$(275)	$309
Comprehensive Income (Loss)	332	104	186	(289)	333
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	1	—	1
Comprehensive Income (Loss) Attributable to Tyson	$332	$104	$185	$(289)	$332

Condensed Consolidating Statement of Income and Comprehensive Income for the three months ended December 28, 2013 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$167	$5,048	$3,987	$(441)	$8,761
Cost of Sales	17	4,826	3,674	(441)	8,076
Gross Profit	150	222	313	—	685
Selling, General and Administrative	23	55	195	—	273
Operating Income	127	167	118	—	412
Other (Income) Expense:					
Interest expense, net	5	15	6	—	26
Other, net	6	(1)	(2)	—	3
Equity in net earnings of subsidiaries	(175)	(6)	—	181	—
Total Other (Income) Expense	(164)	8	4	181	29
Income (Loss) before Income Taxes	291	159	114	(181)	383
Income Tax (Benefit) Expense	37	52	42	—	131
Net Income	254	107	72	(181)	252
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	(2)	—	(2)
Net Income Attributable to Tyson	$254	$107	$74	$(181)	$254

Comprehensive Income (Loss)	244	102	63	(165)	244
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	(2)	—	(2)
Comprehensive Income (Loss) Attributable to Tyson	$244	$102	$65	$(165)	$246

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Condensed Consolidating Balance Sheet as of December 27, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$12	$369	$—	$381
Accounts receivable, net	1	724	1,052	—	1,777
Inventories	—	1,312	1,880	—	3,192
Other current assets	43	67	301	(36)	375
Assets held for sale	3	—	210	—	213
Total Current Assets	47	2,115	3,812	(36)	5,938
Net Property, Plant and Equipment	28	948	4,235	—	5,211
Goodwill	—	881	5,819	—	6,700
Intangible Assets, net	—	14	5,232	—	5,246
Other Assets	160	149	354	—	663
Investment in Subsidiaries	21,153	2,092	—	(23,245)	—
Total Assets	$21,388	$6,199	$19,452	$(23,281)	$23,758
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$189	$—	$407	$—	$596
Accounts payable	28	1,148	971	—	2,147
Other current liabilities	5,414	163	859	(5,279)	1,157
Liabilities held for sale	—	—	54	—	54
Total Current Liabilities	5,631	1,311	2,291	(5,279)	3,954
Long-Term Debt	6,441	2	488	—	6,931
Deferred Income Taxes	17	101	2,355	—	2,473
Other Liabilities	176	127	960	—	1,263
Total Tyson Shareholders' Equity	9,123	4,658	13,344	(18,002)	9,123
Noncontrolling Interest	—	—	14	—	14
Total Shareholders' Equity	9,123	4,658	13,358	(18,002)	9,137
Total Liabilities and Shareholders' Equity	$21,388	$6,199	$19,452	$(23,281)	$23,758

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Condensed Consolidating Balance Sheet as of September 27, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$41	$397	$—	$438
Accounts receivable, net	3	665	1,016	—	1,684
Inventories	—	1,272	2,002	—	3,274
Other current assets	42	78	379	(120)	379
Assets held for sale	3	—	443	—	446
Total Current Assets	48	2,056	4,237	(120)	6,221
Net Property, Plant and Equipment	30	932	4,168	—	5,130
Goodwill	—	881	5,825	—	6,706
Intangible Assets, net	—	15	5,261	—	5,276
Other Assets	204	148	326	(55)	623
Investment in Subsidiaries	20,845	2,049	—	(22,894)	—
Total Assets	$21,127	$6,081	$19,817	$(23,069)	$23,956
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$240	$—	$403	$—	$643
Accounts payable	35	755	1,016	—	1,806
Other current liabilities	4,718	235	921	(4,667)	1,207
Liabilities held for sale	—	—	141	—	141
Total Current Liabilities	4,993	990	2,481	(4,667)	3,797
Long-Term Debt	7,056	2	532	(55)	7,535
Deferred Income Taxes	21	96	2,333	—	2,450
Other Liabilities	167	125	978	—	1,270
Total Tyson Shareholders' Equity	8,890	4,868	13,479	(18,347)	8,890
Noncontrolling Interest	—	—	14	—	14
Total Shareholders' Equity	8,890	4,868	13,493	(18,347)	8,904
Total Liabilities and Shareholders' Equity	$21,127	$6,081	$19,817	$(23,069)	$23,956

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Condensed Consolidating Statement of Cash Flows for the three months ended December 27, 2014 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$55	$325	$432	$—	$812
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	—	(40)	(191)	—	(231)
(Purchases of)/Proceeds from marketable securities, net	—	—	(3)	—	(3)
Proceeds from sale of businesses	—	—	142	—	142
Other, net	—	—	3	—	3
Cash Provided by (Used for) Investing Activities	—	(40)	(49)	—	(89)
Cash Flows from Financing Activities:					
Net change in debt	(667)	—	(1)	—	(668)
Purchases of Tyson Class A common stock	(91)	—	—	—	(91)
Dividends	(37)	—	—	—	(37)
Stock options exercised	16	—	—	—	16
Other, net	5	—	—	—	5
Net change in intercompany balances	719	(314)	(405)	—	—
Cash Provided by (Used for) Financing Activities	(55)	(314)	(406)	—	(775)
Effect of Exchange Rate Change on Cash	—	—	(5)	—	(5)
Increase (Decrease) in Cash and Cash Equivalents	—	(29)	(28)	—	(57)
Cash and Cash Equivalents at Beginning of Year	—	41	397	—	438
Cash and Cash Equivalents at End of Period	$—	$12	$369	$—	$381

Condensed Consolidating Statement of Cash Flows for the three months ended December 28, 2013 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$(4)	$284	$81	$—	$361
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(1)	(35)	(104)	—	(140)
(Purchases of)/Proceeds from marketable securities, net	—	—	(1)	—	(1)
Other, net	—	1	(4)	—	(3)
Cash Provided by (Used for) Investing Activities	(1)	(34)	(109)	—	(144)
Cash Flows from Financing Activities:					
Net change in debt	(367)	—	(6)	—	(373)
Purchases of Tyson Class A common stock	(159)	—	—	—	(159)
Dividends	(25)	—	—	—	(25)
Stock options exercised	12	—	—	—	12
Other, net	5	—	—	—	5
Net change in intercompany balances	539	(261)	(278)	—	—
Cash Provided by (Used for) Financing Activities	5	(261)	(284)	—	(540)

Effect of Exchange Rate Change on Cash	—	—	3	—	3
Increase (Decrease) in Cash and Cash Equivalents	—	(11)	(309)	—	(320)
Cash and Cash Equivalents at Beginning of Year	—	21	1,124	—	1,145
Cash and Cash Equivalents at End of Period	$—	$10	$815	$—	$825

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

RESULTS OF OPERATIONS

Description of the Company

We are one of the world's largest producers of chicken, beef, pork and prepared foods that include leading brands such as Tyson®, Jimmy Dean®, Hillshire Farm®, Sara Lee® frozen bakery, Ball Park®, Wright®, Aidells® and State Fair®. Some of the key factors influencing our business are customer demand for our products; the ability to maintain and grow relationships with customers and introduce new and innovative products to the marketplace; accessibility of international markets; market prices for our products; the cost and availability of live cattle and hogs, raw materials, and feed ingredients; and operating efficiencies of our facilities.

Our operations are conducted in five segments: Chicken, Beef, Pork, Prepared Foods and International. On August 28, 2014, we acquired and consolidated The Hillshire Brands Company ("Hillshire Brands"), a manufacturer and marketer of branded, convenient foods. Hillshire Brands' results from operations for the first quarter of fiscal 2015 are included in the Prepared Foods segment.

Overview

- General – Our operating income grew 24% in the first quarter of fiscal 2015, which was led by record earnings in our Chicken segment and strong earnings in our Pork and Prepared Foods segments. Sales grew to a record $10.8 billion in the first quarter of fiscal 2015 and we were able to reduce total debt by approximately $650 million driven by record operating cash flows of $812 million. We continued to execute our strategy of accelerating growth in domestic value-added chicken sales, prepared food sales, innovating products, services and customer insights and cultivating our talent development to support Tyson's growth for the future.
- Hillshire Integration – We continue to maintain focus on the integration of Hillshire Brands and synergy capture. As we execute our Prepared Foods strategy, we estimate the impact of the Hillshire Brands synergies, along with the profit improvement plan related to our legacy Prepared Foods business, will have a positive impact of more than $225 million in fiscal 2015, and more than $500 million by fiscal 2017. The majority of these benefits will be realized in the Prepared Foods segment. In the first quarter of fiscal 2015, we captured $60 million of synergies and profit improvement initiatives of which $55 million impacted the Prepared Foods segment.
- Market environment – Our Chicken segment delivered record results in the first quarter of fiscal 2015 driven by strong demand and favorable domestic market conditions. The Pork segment's operating margins were within its normalized range due to favorable market conditions associated with strong demand for our pork products.
- Our Prepared Foods segment results improved despite increased raw material prices as we continued to execute our profit improvement plan and integrate Hillshire Brands. The Beef segment experienced a loss driven by higher fed cattle costs, lower availability of fed cattle supplies, and reduced demand for premium beef products. Our International segment experienced losses due to challenging market conditions in China.
- Margins – Our total operating margin was 4.7% in the first quarter of fiscal 2015. Operating margins by segment were as follows:
  - Chicken – 12.6%
  - Beef – (0.1)%
  - Pork – 7.9%
  - Prepared Foods – 3.3%
  - International – (4.6)%
- Liquidity – During the first quarter of fiscal 2015 we generated $812 million of operating cash flows. At December 27, 2014, we had approximately $1.6 billion of liquidity, which includes availability under our credit facility and $381 million of cash and cash equivalents.

in millions, except per share data	Three Months Ended	
	December 27, 2014	December 28, 2013
Net income attributable to Tyson	$309	$254
Net income attributable to Tyson – per diluted share	$0.74	$0.72

First quarter - Fiscal 2015 - Net income attributable to Tyson included the following items:

- $36 million, or $0.06 per diluted share, of ongoing costs related to a legacy Hillshire Brands plant fire.
- $19 million, or $0.03 per diluted share, related to the Hillshire Brands merger and integration costs.
- $26 million, or $0.06 per diluted share, related to recognition of previously unrecognized tax benefits.

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Summary of Results

Sales

in millions	Three Months Ended			
	December 27, 2014		December 28, 2013	
Sales	$10,817		$8,761	
Change in sales volume	7.7	%		
Change in average sales price	14.7	%		
Sales growth	23.5	%		

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales were positively impacted by higher sales volume, which accounted for an increase of $756 million. The Chicken, Pork and Prepared Foods segments each had an increase in sales volume offset by a decrease in sales volume in each of the Beef and International segments. Prepared Foods contributed the majority of the increase due to the acquisition of Hillshire Brands on August 28, 2014.
- Average Sales Price – Sales were positively impacted by higher average sales prices, which accounted for an increase of $1.3 billion. All segments, with the exception of the International segment, had an increase in average sales price largely due to improved mix and increased pricing associated with rising raw material, cattle and hog costs.

Cost of Sales

in millions	Three Months Ended			
	December 27, 2014		December 28, 2013	
Cost of sales	$9,861		$8,076	
Gross profit	$956		$685	
Cost of sales as a percentage of sales	91.2	%	92.2	%

First quarter – Fiscal 2015 vs Fiscal 2014

- Cost of sales increased $1.8 billion. Higher input cost per pound increased cost of sales $1.1 billion and higher sales volume increased cost of sales $676 million.
- The $1.1 billion impact of higher input cost per pound was primarily driven by:
  - Increases in live cattle and live hog costs of approximately $780 million and $110 million, respectively.
  - Increases in raw material and other input costs of approximately $10 million in our legacy Prepared Foods business.
  - Increase of $36 million related to ongoing costs related to a legacy Hillshire Brands plant fire.
  - Increase due to net losses of $70 million in the first quarter of fiscal 2015, compared to net losses of $10 million in the first quarter of fiscal 2014, primarily from our Chicken and Beef segments commodity risk management activities. These amounts exclude the impact from related physical purchase transaction, which mostly offset the losses.
  - Increase in input cost per pound related to the acquisition of Hillshire Brands on August 28, 2014.
  - Decreases in feed costs of approximately $110 million in our Chicken segment and $10 million in our International segment.
- The $676 million impact of higher sales volume was driven by increases in sales volume in each of our segments other than our Beef and International segments. Prepared Foods contributed to the majority of the increase due to the acquisition of Hillshire Brands on August 28, 2014.

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Selling, General and Administrative

in millions	Three Months Ended			
	December 27, 2014		December 28, 2013	
Selling, general and administrative expense	$447		$273	
As a percentage of sales	4.1	%	3.1	%

First quarter – Fiscal 2015 vs Fiscal 2014

- Increase of $134 million related to the inclusion of Hillshire Brands in the first quarter of fiscal 2015 results with no corresponding amounts in the first quarter of fiscal 2014.
- Increase of $19 million related to merger and integration costs.
- Increase of $18 million related to amortization associated with acquired Hillshire Brands' intangibles.

Interest Expense

in millions	Three Months Ended	
	December 27, 2014	December 28, 2013
Cash interest expense	$75	$28
Non-cash interest expense	2	—
Total Interest Expense	$77	$28

First quarter – Fiscal 2015 vs Fiscal 2014

- Cash interest expense primarily included interest expense related to the coupon rates for senior notes and term loans and commitment/letter of credit fees incurred on our revolving credit facilities. The increase in cash interest expense in the first quarter of fiscal 2015 was primarily due to senior notes and term loans issued and debt assumed in connection with our acquisition of Hillshire Brands on August 28, 2014.
- Non-cash interest expense primarily included amounts related to the amortization of debt issuance costs and discounts/premiums on note issuances, partially offset by interest capitalized. The increase in non-cash interest expense is due to increased amortization of debt issuance costs incurred with our acquisition of Hillshire Brands.

Other (Income) Expense, net

in millions	Three Months Ended	
	December 27, 2014	December 28, 2013
	$(1)	$3

First quarter – Fiscal 2015

- Included $1 million of income from equity earnings in joint ventures.

First quarter - Fiscal 2014

- Included an expense of $6 million related to the impairment of an equity security investment, which was partially offset by income of $3 million of equity earnings in joint ventures and foreign currency exchange gains.

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Effective Tax Rate

	Three Months Ended	
	December 27, 2014	December 28, 2013
	28.8 %	34.3 %

First quarter - Fiscal 2015 – The effective tax rate was impacted by:

- state income taxes;
- the domestic production deduction;
- losses in foreign jurisdictions for which no benefit is recognized; and
- decrease in tax reserves due to the expiration of statutes of limitations and settlements with taxing authorities.

First quarter - Fiscal 2014 – The effective tax rate was impacted by:

- state income taxes;
- the domestic production deduction; and
- losses in foreign jurisdictions for which no benefit is recognized.

Segment Results

We operate in five segments: Chicken, Beef, Pork, Prepared Foods and International. The following table is a summary of sales and operating income (loss), which is how we measure segment income.

in millions	Sales	
	Three Months Ended	
	December 27, 2014	December 28, 2013
Chicken	$2,780	$2,656
Beef	4,391	3,734
Pork	1,540	1,424
Prepared Foods	2,133	907
International	305	327
Other	—	—
Intersegment Sales	(332)	(287)
Total	$10,817	$8,761

in millions	Operating Income (Loss)	
	Three Months Ended	
	December 27, 2014	December 28, 2013
Chicken	$351	$253
Beef	(6)	58
Pork	122	121
Prepared Foods	71	16
International	(14)	(28)
Other	(15)	(8)
Total	$509	$412

Note: During the second quarter of fiscal 2014, we began reporting our International operation as a separate segment, which was previously included in our Chicken segment. All periods presented have been reclassified to reflect this change.

First quarter – Fiscal 2015

- Operating income was reduced by $40 million in the Prepared Foods segment due to $36 million of ongoing costs related to a legacy Hillshire Brands plant fire and $4 million of merger and acquisition costs.
- Operating income was reduced by $15 million in Other for third-party merger and integration costs.

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Chicken Segment Results

in millions	Three Months Ended		
	December 27, 2014	December 28, 2013	Change
Sales	$2,780	$2,656	$124
Sales Volume Change			3.1 %
Average Sales Price Change			1.5 %
Operating Income	$351	$253	$98
Operating Margin	12.6 %	9.5 %	

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales volume grew as a result of stronger demand for chicken products.
- Average Sales Price – Average sales price increased as a result of market conditions and sales mix changes.
- Operating Income – Operating income increased due to higher average sales price and volumes in addition to lower feed ingredient costs which decreased $110 million during the first quarter of fiscal 2015.

Beef Segment Results

in millions	Three Months Ended		
	December 27, 2014	December 28, 2013	Change
Sales	$4,391	$3,734	$657
Sales Volume Change			(2.7)%
Average Sales Price Change			20.9 %
Operating Income	$(6)	$58	$(64)
Operating Margin	(0.1)%	1.6 %	

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales volume decreased due to a reduction in live cattle processed.
- Average Sales Price – Average sales price increased due to lower domestic availability of beef products.
- Operating Income – Operating income decreased due to higher fed cattle costs and periods of reduced consumption of beef products, which made it difficult to pass along increased input costs, as well as lower sales volumes and increased operating costs.

Pork Segment Results

in millions	Three Months Ended		
	December 27, 2014	December 28, 2013	Change
Sales	$1,540	$1,424	$116
Sales Volume Change			1.1 %
Average Sales Price Change			7.0 %
Operating Income	$122	$121	$1
Operating Margin	7.9 %	8.5 %	

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales volume increased due to better domestic demand for our pork products.
- Average Sales Price – Average sales price increased due to better demand for our pork products. Additionally our average sales price increased due to lower total hog supplies, which resulted in higher input costs.
- Operating Income – Operating income remained strong as we maximized our revenues relative to live hog markets, partially attributable to operational and mix performance.

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Prepared Foods Segment Results

in millions	Three Months Ended		
	December 27, 2014	December 28, 2013	Change
Sales	$2,133	$907	$1,226
Sales Volume Change			89.5 %
Average Sales Price Change			24.1 %
Operating Income	$71	$16	$55
Operating Margin	3.3 %	1.8 %	

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales volume increased primarily due to incremental volumes from the acquisition of Hillshire Brands as well as improved demand for our prepared foods products.
- Average Sales Price – Average sales price increased due to price increases associated with better product mix which was positively impacted by the acquisition of Hillshire Brands, as well as increased prices associated with higher input costs.
- Operating Income – Despite incurring $10 million of higher raw material costs and $40 million of ongoing costs related to a legacy Hillshire Brands plant fire and merger and acquisition costs, operating income improved due to an increase in sales volume and average sales price mainly attributed to Hillshire Brands. Additionally, Prepared Foods operating income was positively impacted by $55 million related to profit improvement initiatives and Hillshire Brands synergies.

International Segment Results

in millions	Three Months Ended		
	December 27, 2014	December 28, 2013	Change
Sales	$305	$327	$(22)
Sales Volume Change			(3.8)%
Average Sales Price Change			(2.9)%
Operating Income	$(14)	$(28)	$14
Operating Margin	(4.6)%	(8.6)%	

First quarter – Fiscal 2015 vs Fiscal 2014

- Sales Volume – Sales volume decreased due to the sale of the Brazil operation during the first quarter of fiscal 2015.
- Average Sales Price – Average sales price decreased due to supply imbalances associated with weak demand in China.
- Operating Income – Operating loss improved due to the sale of the Brazil operation and better market conditions in Mexico.

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LIQUIDITY AND CAPITAL RESOURCES

Our cash needs for working capital, capital expenditures, growth opportunities, the repurchases of senior notes, repayment of term loans and share repurchases are expected to be met with current cash on hand, cash flows provided by operating activities, or short-term borrowings. Based on our current expectations, we believe our liquidity and capital resources will be sufficient to operate our business. However, we may take advantage of opportunities to generate additional liquidity or refinance existing debt through capital market transactions. The amount, nature and timing of any capital market transactions will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

Cash Flows from Operating Activities

in millions	Three Months Ended	
	December 27, 2014	December 28, 2013
Net income	$310	$252
Non-cash items in net income:		
Depreciation and amortization	175	127
Deferred income taxes	11	(15)
Other, net	6	22
Convertible debt discount	—	(92)
Net, changes in working capital	310	67
Net cash provided by operating activities	$812	$361

- Operating cash outflow associated with the Convertible debt discount related to the initial debt discount of $92 million on our 3.25% convertible notes issued in 2008, which matured on October 15, 2013 and were retired in the first quarter of fiscal 2014.
- Cash flows associated with changes in working capital for the three months ended:
  - December 27, 2014 – Increased primarily due to higher accounts payable and taxes payable, partially offset by an increase in accounts receivable. The increases in accounts payable and accounts receivable are largely due to increases in input costs and price increases associated with the higher input costs as well as due to the timing of payments and sales.
  - December 28, 2013 – Increased primarily due to higher accounts payable and lower inventory balances, partially offset by decreases in accrued interest payable and accrued salaries, wages and benefit balances. The decrease in inventory balance was largely due to a decline in overall feed ingredient costs.

Cash Flows from Investing Activities

in millions	Three Months Ended	
	December 27, 2014	December 28, 2013
Additions to property, plant and equipment	$(231)	$(140)
(Purchases of)/Proceeds from marketable securities, net	(3)	(1)
Proceeds from sale of businesses	142	—
Other, net	3	(3)
Net cash used for investing activities	$(89)	$(144)

- Additions to property, plant and equipment include acquiring new equipment and upgrading our facilities to maintain competitive standing and position us for future opportunities.
- Capital spending for fiscal 2015 is expected to be approximately $900 million, and will include spending on our operations for production and labor efficiencies, yield improvements and sales channel flexibility.
- Proceeds from sale of businesses primarily include proceeds, net of cash transferred, from the sale of our Brazil operation.

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Cash Flows from Financing Activities

in millions	Three Months Ended	
	December 27, 2014	December 28, 2013
Payments on debt	$(668)	$(379)
Net proceeds from borrowings	—	6
Purchases of Tyson Class A common stock	(91)	(159)
Dividends	(37)	(25)
Stock options exercised	16	12
Other, net	5	5
Net cash used for financing activities	$(775)	$(540)

- During the first quarter of fiscal 2015, we retired the 5-year tranche A term loan facility for $353 million and paid down the 3-year tranche term loan facility by $300 million.
- Our 3.25% convertible notes issued in 2008 matured on October 15, 2013 at which time we paid the $458 million principal value with cash on hand, and settled the conversion premium by issuing 11.7 million shares of our Class A stock from available treasury shares. These notes were initially recorded at a $92 million discount, which equaled the fair value of an equity conversion premium instrument. The portion of the payment of the notes related to the initial $92 million discount was recorded in cash flows from operating activities. Simultaneous to the settlement of the conversion premium, we received 11.7 million shares of our Class A stock from call options purchased at the time of issuance of the notes.
- Purchases of Tyson Class A stock included:
  - $81 million and $150 million of shares repurchased pursuant to our share repurchase program during the first quarter of fiscal 2015 and 2014, respectively.
  - $10 million and $9 million of shares repurchased to fund certain obligations under our equity compensation programs during the first quarter of fiscal 2015 and 2014, respectively.
  - We currently plan to repurchase a number of shares equivalent to the dilution expected to be realized from the current fiscal year grant under our stock-based compensation programs.
- Dividends during the first quarter of fiscal 2015 included a 33% increase to our quarterly dividend rate.

Liquidity

in millions	Commitments Expiration Date	Facility Amount	Outstanding Letters of Credit (no draw downs)	Amount Borrowed	Amount Available
Cash and cash equivalents					$381
Short-term investments					2
Revolving credit facility	September 2019	$1,250	$5	$—	1,245
Total liquidity					$1,628

- The revolving credit facility supports our short-term funding needs and letters of credit. The letters of credit issued under this facility are primarily in support of workers' compensation insurance programs and derivative activities.
- We expect net interest expense will approximate $285 million for fiscal 2015 (53-weeks).
- At December 27, 2014, approximately $326 million of our cash was held in the international accounts of our foreign subsidiaries. Generally, we do not rely on the foreign cash as a source of funds to support our ongoing domestic liquidity needs. Rather, we manage our worldwide cash requirements by reviewing available funds among our foreign subsidiaries and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to regulatory capital requirements; however, those balances are generally available without legal restrictions to fund ordinary business operations. U.S. income taxes, net of applicable foreign tax credits, have not been provided on undistributed earnings of foreign

subsidiaries with the exception of the undistributed earnings of our Mexican subsidiaries due to the pending sale. Except for cash generated from the sale of our Mexico operation, our intention is to reinvest the cash held by foreign subsidiaries permanently or to repatriate the cash only when it is tax effective to do so.

- Our current ratio was 1.50 to 1 and 1.64 to 1 at December 27, 2014, and September 27, 2014, respectively.

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Capital Resources

Credit Facility

Cash flows from operating activities and current cash on hand are our primary sources of liquidity for funding debt service, capital expenditures, dividends and share repurchases. We also have a revolving credit facility, with a committed maximum capacity of $1.25 billion, to provide additional liquidity for working capital needs, letters of credit and a source of financing for growth opportunities. As of December 27, 2014, we had outstanding letters of credit totaling $5 million issued under this facility, none of which were drawn upon, which left $1,245 million available for borrowing. Our revolving credit facility is funded by a syndicate of 42 banks, with commitments ranging from $0.3 million to $85 million per bank. The syndicate includes bank holding companies that are required to be adequately capitalized under federal bank regulatory agency requirements.

Capitalization

To monitor our credit ratings and our capacity for long-term financing, we consider various qualitative and quantitative factors. We monitor the ratio of our net debt to EBITDA as support for our long-term financing decisions. At December 27, 2014, and September 27, 2014, the ratio of our net debt to EBITDA was 3.5x and 4.1x, respectively. Refer to Part I, Item 3, EBITDA Reconciliations, for an explanation and reconciliation to comparable GAAP measures. The decrease in this ratio at December 27, 2014 was due to increased EBITDA and the reduction of debt during the first quarter of fiscal 2015 of approximately $650 million.

Credit Ratings

2016 Notes

On February 11, 2013, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (S&P), upgraded the credit rating of the 2016 Notes from "BBB-" to "BBB." This upgrade did not impact the interest rate on the 2016 Notes.

On June 7, 2012, Moody's Investors Service, Inc. (Moody's) upgraded the credit rating of the 2016 Notes from "Ba1" to "Baa3." This upgrade decreased the interest rate on the 2016 Notes from 6.85% to 6.60%, effective beginning with the six-month interest payment due October 1, 2012.

A one-notch downgrade by Moody's would increase the interest rates on the 2016 Notes by 0.25%. A two-notch downgrade from S&P would increase the interest rates on the 2016 Notes by 0.25%.

Revolving Credit Facility

S&P's corporate credit rating for Tyson Foods, Inc. is "BBB." Moody’s senior, unsecured, subsidiary guaranteed long-term debt rating for Tyson Foods, Inc. is "Baa3." Fitch Ratings, a wholly owned subsidiary of Fimalac, S.A. (Fitch), issuer default rating for Tyson Foods, Inc. is "BBB." The below table outlines the fees paid on the unused portion of the facility (Facility Fee Rate) and letter of credit fees (Undrawn Letter of Credit Fee and Borrowing Spread) depending on the rating levels of Tyson Foods, Inc. from S&P, Moody's and Fitch.

Ratings Level (S&P/Moody's/Fitch)	Facility Fee Rate	Undrawn Letter of Credit Fee and Borrowing Spread
A-/A3/A- or above	0.100%	1.000%
BBB+/Baa1/BBB+	0.125%	1.125%
BBB/Baa2/BBB (current level)	0.150%	1.250%
BBB-/Baa3/BBB-	0.200%	1.500%
BB+/Ba1/BB+ or lower	0.250%	1.750%

In the event the rating levels are split, the applicable fees and spread will be based upon the rating level in effect for two of the rating agencies, or, if all three rating agencies have different rating levels, the applicable fees and spread will be based upon the rating level that is between the rating levels of the other two rating agencies.

Debt Covenants

Our revolving credit and term loan facilities contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens and encumbrances; incur debt; merge, dissolve, liquidate or consolidate; make acquisitions and investments; dispose of or transfer assets; change the nature of our business; engage in certain transactions with affiliates; and enter into hedging transactions, in each case, subject to certain qualifications and

exceptions. In addition, we are required to maintain minimum interest expense coverage and maximum debt-to-capitalization ratios.

Our senior notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens; engage in certain sale/leaseback transactions; and engage in certain consolidations, mergers and sales of assets.

We were in compliance with all debt covenants at December 27, 2014.

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RECENTLY ADOPTED/ISSUED ACCOUNTING PRONOUNCEMENTS

Refer to the discussion of recently adopted/issued accounting pronouncements under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 1: Accounting Policies.

CRITICAL ACCOUNTING ESTIMATES

We consider accounting policies related to: contingent liabilities; marketing and advertising costs; accrued self-insurance; defined benefit pension plans; impairment of long-lived assets; impairment of goodwill and other intangible assets; and income taxes to be critical accounting estimates. These policies are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended September 27, 2014.

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

Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of our outlook for fiscal 2015, other future economic circumstances, industry conditions in domestic and international markets, our performance and financial results (e.g., debt levels, return on invested capital, value-added product growth, capital expenditures, tax rates, access to foreign markets and dividend policy). These forward-looking statements are subject to a number of factors and uncertainties that could cause our actual results and experiences to differ materially from anticipated results and expectations expressed in such forward-looking statements. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may cause actual results and experiences to differ from anticipated results and expectations expressed in such forward-looking statements are the following: (i) the effect of, or changes in, general economic conditions; (ii) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (iii) market conditions for finished products, including competition from other global and domestic food processors, supply and pricing of competing products and alternative proteins and demand for alternative proteins; (iv) successful rationalization of existing facilities and operating efficiencies of the facilities; (v) risks associated with our commodity purchasing activities; (vi) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vii) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an adverse effect on livestock we own, the availability of livestock we purchase, consumer perception of certain protein products or our ability to access certain domestic and foreign markets; (viii) changes in availability and relative costs of labor and contract growers and our ability to maintain good relationships with employees, labor unions, contract growers and independent producers providing us livestock; (ix) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (x) changes in consumer preference and diets and our ability to identify and react to consumer trends; (xi) significant marketing plan changes by large customers or loss of one or more large customers; (xii) adverse results from litigation; (xiii) impacts on our operations caused by factors and forces beyond our control, such as natural disasters, fire, bioterrorism, pandemic or extreme weather; (xiv) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xv) compliance with and changes to regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws; (xvi) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xvii) failures or security breaches of our information technology systems; (xviii) effectiveness of advertising and marketing programs; and (xix) those factors listed under Item 1A. "Risk Factors" included in our Annual Report filed on Form 10-K for the year ended September 27, 2014.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk relating to our operations results primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, we enter into various derivative transactions as described below. If a derivative instrument is accounted for as a hedge, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized immediately. Additionally, we hold certain positions, primarily in grain and livestock futures that either do not meet the criteria for hedge accounting or are not designated as hedges. With the exception of normal purchases and normal sales that are expected to result in physical delivery, we record these positions at fair value, and the unrealized gains and losses are reported in earnings at each reporting date. Changes in market value of derivatives used in our risk management activities relating to forward sales contracts are recorded in sales. Changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales.

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

Commodities Risk: We purchase certain commodities, such as grains and livestock in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as December 27, 2014, and September 27, 2014, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge derivative financial instruments.

Effect of 10% change in fair value		in millions
	December 27, 2014	September 27, 2014
Livestock:		
Cattle	$50	$42
Hogs	18	32
Grain	11	10

Interest Rate Risk: At December 27, 2014, we had variable rate debt of $1.4 billion with a weighted average interest rate of 1.6%. A hypothetical 10% increase in interest rates effective at December 27, 2014, and September 27, 2014, would have a minimal effect on interest expense.

Additionally, changes in interest rates impact the fair value of our fixed-rate debt. At December 27, 2014, we had fixed-rate debt of $6.1 billion with a weighted average interest rate of 4.2%. Market risk for fixed-rate debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately $113 million at December 27, 2014 and $109 million at September 27, 2014. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

We have interest rate risk associated with our pension and post-retirement benefit obligations. Changes in interest rates impact the liabilities associated with these benefit plans as well as the amount of income or expense recognized for these plans. Declines in the value of the plan assets could diminish the funded status of the pension plans and

potentially increase the requirements to make cash contributions to these plans. See Part II, Item 8, Notes to Consolidated Financial Statements, Note 15: Pensions and Other Postretirement Benefits in the Annual Report on Form 10-K for the year ended September 27, 2014 for additional information.

Foreign Currency Risk: We have foreign exchange exposure from fluctuations in foreign currency exchange rates primarily as a result of certain receivable and payable balances. The primary currencies we have exposure to are the Brazilian real, the British pound sterling, the Canadian dollar, the Chinese renminbi, the European euro, the Indian rupee and the Mexican peso. We periodically enter into foreign exchange forward and option contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at December 27, 2014, and September 27, 2014, related to the foreign exchange forward and option contracts would have a $3 million and $9 million impact, respectively, on pretax income.

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Concentration of Credit Risk: Refer to our market risk disclosures set forth in the 2014 Annual Report filed on Form 10-K for a detailed discussion of quantitative and qualitative disclosures about concentration of credit risks, as these risk disclosures have not changed significantly from the 2014 Annual Report.

EBITDA Reconciliations

A reconciliation of net income to EBITDA is as follows (in millions, except ratio data):

	Three Months Ended		Fiscal Year Ended	Twelve Months Ended
	December 27, 2014	December 28, 2013	September 27, 2014	December 27, 2014
Net income	$310	$252	$856	$914
Less: Interest income	(2)	(2)	(7)	(7)
Add: Interest expense	77	28	132	181
Add: Income tax expense	125	131	396	390
Add: Depreciation	148	120	494	522
Add: Amortization (a)	23	4	26	45
EBITDA	$681	$533	$1,897	$2,045
Total gross debt			$8,178	$7,527
Less: Cash and cash equivalents			(438)	(381)
Less: Short-term investments			(1)	(2)
Total net debt			$7,739	$7,144
Ratio Calculations:				
Gross debt/EBITDA			4.3x	3.7x
Net debt/EBITDA			4.1x	3.5x

(a) Excludes the amortization of debt discount expense of $4 million and $3 million for the three months ended December 27, 2014, and December 28, 2013, respectively, $10 million for the fiscal year ended September 27, 2014, and $11 million for the twelve months ended December 27, 2014, as it is included in Interest expense.

EBITDA represents net income, net of interest, income tax and depreciation and amortization. Net debt to EBITDA represents the ratio of our debt, net of cash and short-term investments, to EBITDA. EBITDA and net debt to EBITDA are presented as supplemental financial measurements in the evaluation of our business. We believe the presentation of these financial measures helps investors to assess our operating performance from period to period, including our ability to generate earnings sufficient to service our debt, and enhances understanding of our financial performance and highlights operational trends. These measures are widely used by investors and rating agencies in the valuation, comparison, rating and investment recommendations of companies; however, the measurements of EBITDA and net debt to EBITDA may not be comparable to those of other companies, which limits their usefulness as comparative measures. EBITDA and net debt to EBITDA are not measures required by or calculated in accordance with generally accepted accounting principles (GAAP) and should not be considered as substitutes for net income or any other measure of financial performance reported in accordance with GAAP or as a measure of operating cash flow or liquidity. EBITDA is a useful tool for assessing, but is not a reliable indicator of, our ability to generate cash to service our debt obligations because certain of the items added to net income to determine EBITDA involve outlays of cash. As a result, actual cash available to service our debt obligations will be different from EBITDA. Investors should rely primarily on our GAAP results, and use non-GAAP financial measures only supplementally, in making investment decisions.

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Item 4. Controls and Procedures

An evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, management, including the CEO and CFO, has concluded that, as of December 27, 2014, our disclosure controls and procedures were effective.

In the first quarter ended December 27, 2014, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to the description of certain legal proceedings pending against us under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 16: Commitments and Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and/or its subsidiaries.

On June 17, 2014, the Missouri attorney general filed a civil lawsuit against us in the circuit court of Barry County, Missouri, concerning an incident that occurred in May 2014 in which some feed supplement was discharged from our plant in Monett, Missouri, to the City of Monett's wastewater treatment plant allegedly leading to a fish kill in a local stream and odor issues around the plant. That lawsuit alleges six violations stemming from the incident and seeks penalties against us, compensation for damage to the stream, and reimbursement for the State of Missouri's costs in investigating the matter. In January 2015 a consent judgment was entered that resolved the lawsuit. The judgment requires payment of $540,000, which includes amounts for penalties, cost recovery and supplemental environmental projects. The U.S. Environmental Protection Agency has also indicated to us that it has begun a criminal investigation into the incident. If we become subject to criminal charges, we may be subject to a fine and other relief, as well as government contract suspension and debarment. We are cooperating with the Environmental Protection Agency but cannot predict the outcome of its investigation at this time. It is also possible that other regulatory agencies may commence investigations and allege additional violations.

On June 19, 2005, the Attorney General and the Secretary of the Environment of the State of Oklahoma filed a complaint in the U.S. District Court for the Northern District of Oklahoma against Tyson Foods, Inc., three subsidiaries and six other poultry integrators. The complaint, which was subsequently amended, asserts a number of state and federal causes of action including, but not limited to, counts under Comprehensive Environmental Response, Compensation, and Liability Act, Resource Conservation and Recovery Act, and state-law public nuisance theories. Oklahoma alleges that the defendants and certain contract growers who were not joined in the lawsuit polluted the surface waters, groundwater and associated drinking water supplies of the Illinois River Watershed through the land application of poultry litter. Oklahoma's claims were narrowed through various rulings issued before and during trial and its claims for natural resource damages were dismissed by the district court in a ruling issued on July 22, 2009 which was subsequently affirmed on appeal by the Tenth Circuit Court of Appeals. A non-jury trial of the remaining claims including Oklahoma's request for injunctive relief began on September 24, 2009. Closing arguments were held on February 11, 2010. The district court has not yet rendered its decision from the trial.

Other Matters: At September 27, 2014, we had approximately 124,000 employees and, at any time, we have various employment practices matters outstanding. In the aggregate, these matters are significant to the Company, and we devote significant resources to managing employment issues. Additionally, we are subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on our consolidated results of operations or financial position.

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Item 1A. Risk Factors

There have been no material changes to the risk factors listed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended September 27, 2014. These risk factors should be considered carefully with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information regarding our purchases of Class A stock during the periods indicated.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [1]
Sept. 28, 2014 to Oct. 25, 2014	128,702	$40.02	—	32,054,771
Oct. 26, 2014 to Nov. 29, 2014	1,276,535	40.74	1,200,000	30,854,771
Nov. 30, 2014 to Dec. 27, 2014	838,622	39.81	800,000	30,054,771
Total	2,243,859 [2]	$40.35	2,000,000 [3]	30,054,771

(1) On February 7, 2003, we announced our Board of Directors approved a program to repurchase up to 25 million shares of Class A common stock from time to time in open market or privately negotiated transactions. On May 3, 2012, our Board of Directors approved an increase of 35 million shares authorized for repurchase under this program. On January 30, 2014, our Board of Directors approved an increase of 25 million shares authorized for repurchase under this program. The program has no fixed or scheduled termination date.

(2) We purchased 243,859 shares during the period that were not made pursuant to our previously announced stock repurchase program, but were purchased to fund certain Company obligations under our equity compensation plans. These transactions included 158,360 shares purchased in open market transactions and 85,499 shares withheld to cover required tax withholdings on the vesting of restricted stock.

(3) These shares were purchased during the period pursuant to our previously announced stock repurchase program.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

The following exhibits are filed with this report.

Exhibit No.	Exhibit Description
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended December, 27, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Statements of Income, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows, and (v) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TYSON FOODS, INC.

Date: January 30, 2015	/s/ Dennis Leatherby Dennis Leatherby Executive Vice President and Chief Financial Officer
Date: January 30, 2015	/s/ Curt T. Calaway Curt T. Calaway Senior Vice President, Controller and Chief Accounting Officer