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

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K/A

**Amendment 1**

**[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended September 27, 2003**

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the transition period from _______________ to _______________**

**Commission File No. 0-3400**

# TYSON FOODS, INC.

(Exact Name of Registrant as specified in its Charter)

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

Securities Registered Pursuant to Section 12(b) of the Act:

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Class A Common Stock, Par Value $0.10 | New York Stock Exchange, Inc. |

Securities Registered Pursuant to Section 12(g) of the Act: Not Applicable

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, and (2) has been subject to such filing requirements for the past 90 days. Yes **[X]** No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

On March 29, 2003, the aggregate market value of the Class A Common and Class B Common voting stock held by non-affiliates of the registrant was $1,865,010,321 and $292,857, respectively.

On September 27, 2003, there were outstanding 251,007,530 shares of the registrant's Class A Common Stock, $0.10 par value, and 101,634,548 shares of its Class B Common Stock, $0.10 par value.

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The Exhibit Index appears on pages 60 through 66

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**INCORPORATION BY REFERENCE**

The following indicated portions of the registrant's definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held February 6, 2004 (the "Proxy Statement") are incorporated by reference into the indicated portions of this Annual Report on Form 10-K:

**Part III**

**Item 10. Directors and Executive Officers of the Registrant**

The information set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

**Item 11. Executive Compensation**

The information set forth under the caption "Executive Compensation and Other Information" in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information set forth under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the Proxy Statement.

**Equity Compensation Plan Information**

The information set forth under the caption "Equity Compensation Plan Information" in the Proxy Statement

**Item 13. Certain Relationships and Related Transactions**

The information set forth under the caption "Certain Transactions" in the Proxy Statement.

**Item 14. Principle Accounting Fees and Services**

The information set forth under the captions "Audit Fees," "Audit-Related Fees," "Tax Fees" and "All Other Fees" in the Proxy Statement.

**EXPLANATORY NOTE**

In accordance with SEC Rule 12b-15, this Amendment No. 1 on Form 10-K/A amends certain items of the Annual Report on Form 10-K of Tyson Foods, Inc. (the "Company") for the fiscal year ended September 27, 2003 as filed with the Securities and Exchange Commission on December 16, 2003 (the "Annual Report") and presents in its entirety the Annual Report, as amended. These amended items do not restate the Company's consolidated financial statements previously filed in the Annual Report. This Form 10-K/A does not reflect events occurring after the filing of the original Annual Report or modify or update those disclosures affected by subsequent events

The changes reflected by this Form 10-K/A are to revise the references to the definitive Proxy statement in Items 12 and 13 of Part III, and to revise disclosures in Footnotes 1 and 14 contained in the Financial Statements under Item 8. The Exhibit Index in Item 15 is also amended to reflect the inclusion of updated certifications of certain executive officers and an updated consent letter from Ernst & Young LLP.

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## PART I

### ITEM 1. BUSINESS

### GENERAL

Tyson Foods, Inc. and its subsidiaries (collectively, "the Company" or "Tyson"), with world headquarters in Springdale, Arkansas, produce, distribute and market chicken, beef, pork, prepared foods and related allied products. The Company commenced business in 1935, was incorporated in Arkansas in 1947, and was reincorporated in Delaware in 1986. The Company has engaged in a number of acquisitions, including the acquisitions of IBP, inc. (IBP) in 2001, Hudson Foods, Inc. in 1998 and Holly Farms Corporation in 1989. In addition to being the world's largest processor and marketer of chicken, beef and pork products, the Company is also the second largest publicly traded food company in the United States and has one of the most recognized brand names in the food industry.

The Company is a totally integrated poultry company. Through its wholly owned subsidiary, Cobb-Vantress, Tyson is the number one breeding stock supplier in the world. Tyson invests in breeding stock research and development which allows the Company to breed into its flocks the natural characteristics found to be most desirable. The Company's integrated operations consist of breeding and raising chickens, as well as the processing, further-processing and marketing of these food products and related allied products, including animal and pet food ingredients.

The Company is also involved in the processing of live fed cattle and hogs and fabrication of dressed beef and pork carcasses into primal and sub-primal meat cuts, case-ready products and fully-cooked beef and pork products. In addition, the Company derives value from allied products such as hides and variety meats for sale to further processors.

The Company produces a wide range of fresh, value-added, frozen and refrigerated food products. The Company's products are marketed and sold to national and regional grocery chains, regional grocery wholesalers, meat distributors, clubs and warehouse stores, military commissaries, industrial food processing companies, national and regional chain restaurants or their distributors, international export companies and domestic distributors who service restaurants, foodservice operations such as plant and school cafeterias, convenience stores, hospitals and other vendors. Sales are made by the Company's sales staff located in Springdale, Arkansas, and Dakota Dunes, South Dakota, as well as in various regional offices throughout the United States and in several foreign countries. Additionally, sales to the military and a portion of sales to international markets are made through independent brokers and trading companies.

**FINANCIAL INFORMATION OF BUSINESS SEGMENTS**

The Company operates in five business segments: Chicken, Beef, Pork, Prepared Foods and Other. The contribution of each business segment to net sales and operating income, and the identifiable assets attributable to each business segment are set forth in Note 17, "Segment Reporting" of the Consolidated Financial Statements included herein at pages 51 through 52.

**DESCRIPTION OF BUSINESS SEGMENTS**

**Chicken** The Company's chicken operations are primarily involved in the processing of live chickens into fresh, frozen and value-added chicken products sold through domestic foodservice, domestic food retailers, wholesale club markets that service small foodservice operations, small businesses and individuals, as well as specialty and commodity distributors who deliver to restaurants, schools and international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

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

Eight of the Company's fed beef plants include hide processing facilities. The uncured hides from the Company's other fed beef plants are transported to these facilities, which include brine curing operations and, in four locations, chrome hide tanneries. The chrome tanning process produces a semi-finished product that is shipped to leather good manufacturers worldwide. Brine-cured hides are sold to other tanneries. Tyson is the largest chrome tanner of cattle hides in the United States.

**Pork** The Company's pork operations involve the processing of live hogs and the fabrication of pork and allied products. The Company's pork facilities produce fresh boxed pork and case-ready products for shipment to customers, as well as pork bellies, hams and boneless picnic meat for shipment to customers who further process the pork into bacon, cooked hams, luncheon meats and sausage items. Throughout production, edible pork and allied products, such as variety meat items, are segregated and prepared for shipment or further refinement. Inedible pork products derived from processing operations are used by further processing to manufacture pet foods, technical products, pharmaceuticals and cosmetics.

Additionally, the Company has farrow-to-finish swine operations, which include genetic and nutritional research, weaned and feeder pig sales, feeder pig finishing and the marketing of live swine to regional and national packers that are conducted in Arkansas, Missouri and Oklahoma.

**Prepared Foods** The Company's prepared foods operations manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork toppings, pizza crusts, flour and corn tortilla products, appetizers, hors d'oeuvres, desserts, prepared meals, ethnic foods, soups, sauces, side dishes, specialty pasta and meat dishes as well as branded and processed meats. The Prepared Foods segment markets its products to food retailers, distributors, wholesalers, restaurants and hotel chains.

**Other** The Company's other segment includes the logistics group and other corporate activities not identified with specific protein groups.

**RAW MATERIALS AND SOURCES OF SUPPLY**

**Chicken** The primary raw materials used by the Company in its chicken operations consist of live chickens that are raised primarily by independent contract growers. The Company's vertically-integrated chicken process begins with the grandparent breeder flocks. Breeder farms specialize in producing the generations of male and female strains, with the broiler being the final progeny. The breeder flocks are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The fertile eggs are incubated at the grandparent hatchery and produce male and female pullets (i.e., the parents). The pullets are sent to breeder houses, and the resulting eggs are sent to Company hatcheries. Once the chicks have hatched, they are sent to broiler farms. There, contract growers care for and raise the chicks according to Company standards while receiving advice from Company technical service personnel until the broilers have reached the desired processing weight. The adult chickens are caught and hauled to processing plants. The finished products are sent to distribution centers and then transported to customers. Vertically-integrated poultry companies operate their own feed mills to produce scientifically-formulated feeds. Corn and soybean meal are major production costs in the poultry industry, representing roughly 39% of the cost of growing a chicken. In addition to feed ingredients to grow the chickens, the Company uses cooking ingredients, packaging materials and cryogenic agents. The Company believes that its sources of supply for these materials are adequate for its present needs and the Company does not anticipate any difficulty in acquiring these materials in the future. While the Company produces substantially all of its inventory of breeder chickens and live broilers, it may also purchase live, ice-packed or deboned chicken to meet production requirements.

**Beef** The primary raw material used by the Company in its beef operations is live cattle. The Company does not have facilities of its own to raise cattle in the United States. The Company has approximately 70 cattle buyers located throughout cattle producing areas who visit feed yards and buy a majority of the Company's live cattle on the open spot market. These buyers are trained to select high quality animals and their performance is continually measured by the Company. The Company also enters into various risk-sharing and procurement arrangements with producers that help secure a supply of livestock for daily start-up operations at its facilities. The Company's Canadian subsidiary, Lakeside Farm Industries LTD (Lakeside), primarily has cattle feeding facilities and a beef carcass production and boxed beef processing facility. In 2003, Lakeside's feedlots provided approximately 20% of that facility's fed cattle needs.

**Pork** The primary raw material used by the Company in its pork operations is live swine. The Company raises live swine to sell to outside processors and supplies a minimal amount of live swine for its own processing needs. The majority of the Company's live swine supply is obtained through various procurement arrangements with producers. The Company also employs buyers who purchase hogs on a daily basis, generally a few days before the animals



are required for processing.

**Prepared Foods** The primary raw materials used by the Company in its prepared foods operations are typically commodity based raw materials, including fresh and frozen chicken, beef and pork, corn, flour and frozen vegetables. Some of these raw materials are provided by the chicken, beef and pork segments and can also be purchased from numerous suppliers and manufacturers.

**SEASONAL DEMAND**

The demand for the Company's chicken and beef products generally increases during the spring and summer months and generally decreases during the winter months. The Company's pork and prepared foods products generally experience increased demand during the winter months due to the holiday season and decreased demand during the spring and summer months.

**CUSTOMERS**

No single customer of the Company accounts for more than ten percent of the Company's consolidated revenues. However, the top three customers of each segment represent approximately 26% of the Chicken segment's sales, approximately 18% of the Beef segment's sales, approximately 22% of Pork segment's sales and approximately 23% of the Prepared Foods segment's sales. The Company believes the loss of any single customer would not have a material adverse effect on the Company's business. Although, any extended discontinuance of sales to any major customer could, if not replaced, have an impact on the Company's operations, the Company does not anticipate any such occurrences due to the demand for its products and its ability to obtain new customers.

**BACKLOG OF ORDERS**

There is no significant backlog of unfilled orders for the Company's products.

**COMPETITION**

The Company's food products compete with those of other national and regional food producers and processors and certain prepared food manufacturers, namely, Hormel Foods Corporation, Swift and Company, Cargill Incorporated, Smithfield Foods Inc., Pilgrims Pride Corp. and Sanderson Farms Inc. Additionally, the Company's food products compete in international markets around the world. The Company's principal marketing and competitive strategy is to identify target markets for value-enhanced products, to concentrate production, sales and marketing efforts in order to appeal to and enhance the demand from those markets and, utilizing its national distribution systems and customer support services, seek to achieve a leading market position for its products. Past efforts have indicated that customer demand generally can be increased and sustained through application of the Company's marketing strategy, as supported by its distribution systems. The principal competitive elements are brand identification, price, product quality, and customer service.

**INTERNATIONAL**

The Company exported to more than 80 foreign countries in fiscal 2003. Major export markets include Canada, China, European Union, Japan, Mexico, Puerto Rico, Russia, Taiwan and South Korea.

The Company continues to explore growth opportunities in Asia, Russia, and Brazil and believes each offers potential in terms of developing processing facilities. The Company's subsidiary in Mexico continues to show growth with a focus on further processed chicken products. The Company's wholly owned subsidiary, Cobb-Vantress, has operations in Argentina, Brazil, India, Indonesia, Japan, the Philippines, Spain, the United Kingdom, Venezuela and the Netherlands. The Company also owns a majority interest in and operates a chicken processing facility in China and has equity interests in a Russian sausage processing facility and a Chinese pork processing facility. The Company continues to be involved in a technical service agreement with Grupo Melo in Panama to assist Grupo Melo with the production of further processed chicken products and to allow it to license the Tyson brand. Additional information regarding the Company's export sales and long-lived assets located in foreign markets is set forth in Note 17, "Segment Reporting" of the Consolidated Financial Statements included herein at pages 51 through 52.

**RESEARCH AND DEVELOPMENT**

The Company conducts continuous research and development activities to improve finished product development, to develop ways to automate manual processes in its processing plants and growout operations and to improve the strains of primary chicken breeding stock. The annual cost of such research and



development programs is less than one percent of total consolidated annual sales.

**REGULATION AND FOOD SAFETY**

The Company's facilities for processing chicken, beef, pork, prepared foods, milling feed and for housing live chicken and swine are subject to a variety of federal, state and local laws relating to the protection of the environment, including provisions relating to the discharge of materials into the environment, and to the health and safety of its employees. The Company's chicken, beef and pork processing facilities are participants in the government's Hazardous Analysis Critical Control Point (HACCP) program and are subject to the Public Health Security and Bioterroism Preparedness and Response Act of 2002. The cost of compliance with such laws and regulations has not had a material adverse effect upon the Company's capital expenditures, earnings or competitive position and it is not anticipated to have a material adverse effect in the future. In 2003, the Company incurred expenses of approximately $79 million to maintain compliance with such regulations. These expenditures relate principally to the normal operation and maintenance of wastewater treatment facilities ("Wastewater Treatment Facilities"), where the Company biologically treats these wastes, and the associated land application of wastes generated at these treatment facilities. The Company incurred $6 million in capital expenditures, primarily related to its Wastewater Treatment Facilities, in fiscal 2003 and anticipates capital expenditures of approximately $3 million in fiscal 2004 for environmental projects primarily related to the Wastewater Treatment Facilities. The Company believes that it is in substantial compliance with such applicable laws and regulations and the Company is not aware of any violations of, or pending changes in, such laws and regulations that are likely to result in material penalties or material increases in compliance costs, except as disclosed in Item 3.

The Company works to ensure its products meet high standards of food quality and safety. The Company's chicken, beef, pork and prepared foods products are subject to inspection prior to distribution, primarily by the United States Department of Agriculture. Notwithstanding these efforts, food producers are at risk that their products may contain pathogens unless the product has been properly produced, handled and cooked.

The Company is exposed to risk if its products are determined to be contaminated or cause illness or injury. These risks include (1) the cost of adverse publicity and product recalls, including the associated negative consumer reaction; (2) exposure to related civil litigation; and (3) regulatory administrative penalties, which can include injunctive relief and other civil remedies, including plant closings.

**EMPLOYEES AND LABOR RELATIONS**

As of September 27, 2003, the Company employed approximately 120,000 persons. The Company believes that its overall relations with its workforce are good.

Set forth below is a listing of the Company facilities which have employees subject to a collective bargaining agreement together with the name of the union party to the collective bargaining agreement, the number of employees at the facility subject thereto and the expiration date of the collective bargaining agreement currently in effect.

| Location | Union | No. of People | | Expiration Date |
|---|---|---|---|---|
| Albertville, AL | UFCW | 772 | | November 2004 |
| Amarillo, TX | Teamsters | 3,288 | | November 2007 |
| Ashland, AL | RWDSU | 239 | | November 2005 |
| Augusta, ME | UFCW | 148 | | December 2004 |
| Berlin, MD | UFCW | 108 | | December 2004 |
| Berlin, MD | Teamsters | 109 | | December 2004 |
| Berlin, MD | Teamsters | 23 | | July 2004 |
| Buena Vista, GA | RWDSU | 566 | (1) | December 2003 |
| Buffalo, NY | IUOE | 31 | | June 2006 |
| Carthage, TX | UFCW | 415 | | November 2006 |
| Center, TX | UFCW | 1,028 | | February 2006 |
| Cherokee, IA | UFCW | 595 | | March 2004 |



| | | | | |
|---|---|---|---|---|
| Chicago, IL | Production/Maintenance | 520 | | May 2005 |
| Chicago, IL | UFCW | 136 | (1) | July 2003 |
| Chicago, IL | Teamsters | 1 | (1) | April 2001 |

| | | | | |
|---|---|---|---|---|
| Concordia, MO | UFCW | 191 | | June 2005 |
| Corydon, IN | Steelworkers | 37 | | April 2005 |
| Corydon, IN | UFCW | 385 | | January 2005 |
| Dakota City, NE | UFCW | 3,173 | | August 2004 |
| Dakota City, NE | Teamsters | 33 | | April 2005 |
| Dardanelle, AR | UFCW | 789 | | November 2004 |
| Gadsden/Blountsville, AL | Teamsters | 12 | | April 2004 |
| Gadsden, AL | RWDSU | 818 | | November 2004 |
| Glen Allen, VA | UFCW | 801 | | November 2004 |
| Hope, AR | UFCW | 1,041 | | March 2006 |
| Jackson, MS | UFCW | 728 | | December 2005 |
| Jefferson, WI | UFCW | 416 | (2) | June 2002 |
| Joslin, IL | Teamsters | 16 | | June 2007 |
| Joslin, IL | UFCW | 2,077 | | March 2006 |
| Logansport, IN | UFCW | 1,641 | (1) | October 2003 |
| Manchester, NH | UFCW | 432 | | December 2004 |
| Noel, MO | UFCW | 886 | | December 2005 |
| Norfolk, NE | UFCW | 1,254 | | September 2005 |
| North Richland Hills, TX | UFCW | 335 | | August 2004 |
| Pasco, WA | Teamsters | 1,617 | | May 2004 |
| Perry, IA | UFCW | 952 | | December 2007 |
| Pine Bluff, AR | UFCW | 247 | | November 2005 |
| Ponca City, OK | UFCW | 438 | | March 2004 |
| Robards, KY | UFCW | 1,210 | | November 2006 |
| Shelbyville, TN | RWDSU | 1,006 | | November 2007 |
| Shelbyville, TN | Teamsters | 28 | | August 2004 |
| Waterloo, IA | UFCW | 2,137 | | December 2006 |
| Wilkesboro, NC | Teamsters | 219 | | November 2004 |
| Gomez Palacio, Durango | CTM | 2,629 | | February 2005 |
| Gomez Palacio, Durango | CTM | 45 | | April 2005 |
| Monterrey, Neuvo Leon | FNCSI | 52 | | June 2005 |
| Torreon, Coahuila | CROM | 6 | | February 2005 |
| Parras de la Fuenta, Coahuila | CROM | 113 | | February 2005 |
| Mexico, Districto Federal | CROC | 48 | | March 2004 |

UFCW - United Food and Commercial Workers Union
RWDSU - Retail, Wholesale, Department Store Union
IUOE - International Union of Electrical Workers
CTM - Confederacion de Trabajadores de Mexico

FNCSI - Sindicato Industrial de Trabajadores de Nuevo Leon

CROM - Confederacion Reginal Obrera de Mexico

CROC - Confederacion Reginal de Obreros y Campesinos

(1) Contracts are currently under negotiations



(2) The Company is currently experiencing work stoppage of its union employees at its Jefferson, Wisconsin facility, which began on February 28, 2003. The facility continues to operate, although at less than full capacity, through the use of replacement workers hired by the Company.

**MARKETING AND DISTRIBUTION**

The Company's principal marketing objective is to be the primary provider of chicken, beef, pork and prepared foods products for our customers. The Company identifies distinct markets and business opportunities through extensive consumer and market research. The Company's branding strategy focuses on one national protein brand, the Tyson brand, as well as a number of strong regional brands. All communications stress the quality and value proposition of the products while supporting and building brand awareness. Communications efforts utilize a fully integrated and coordinated mix of activities designed to connect with customers and consumers on both a rational and emotional level. The Company utilizes its national distribution system and customer support services to achieve the leading market position for its products.

The Company has the ability to produce and ship fresh, frozen and refrigerated products. The Company's nationwide distribution system utilizes a network of food distributors which is supported by cold storage warehouses owned or leased by the Company, by public cold storage facilities and by the Company's transportation system. The Company ships products from Company-owned consolidated frozen food distribution centers, from a network of public cold storages, from other owned and leased facilities and directly from plants. The Company's distribution centers facilitate accumulating frozen products so that it can fill and consolidate less-than-truckload orders into full truckloads, thereby decreasing shipping costs while increasing customer service. In addition, customers are provided with a selection of products that do not require large volume orders. The Company's distribution system enables it to supply large or small quantities of products to meet customer requirements anywhere in the continental United States.

**PATENTS AND TRADEMARKS**

The Company has registered a number of trademarks relating to its products which either have been approved or are in the process of application. Because the Company does a significant amount of brand name and product line advertising to promote its products, it considers the protection of such trademarks to be important to its marketing efforts. The Company has also developed non-public proprietary information regarding its production processes and other product-related matters. The Company utilizes internal procedures and safeguards to protect the confidentiality of such information, and where appropriate, seeks patent protection for the technology it utilizes.

**INDUSTRY PRACTICES**

The Company's agreements with its customers are generally short-term, due primarily to the nature of its products, industry practice and the fluctuation in demand and price for such products. In certain instances where the Company is selling further processed products to large customers, the Company may enter into written agreements whereby the Company will act as the exclusive or preferred supplier to the customer for periods up to 5 years and on pricing terms which are either fixed or variable.

**AVAILABILITY OF SEC FILINGS AND CORPORATE GOVERNANCE DOCUMENTS ON INTERNET WEBSITE**

The Company maintains an internet website at www.tysonfoodsinc.com. The Company makes available free of charge under the section "Investors" of its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the Securities and Exchange Commission. Also the Company's corporate governance principles, Audit Committee charter, Compensation Committee charter, Governance Committee charter and code of conduct are available under the section "Investors" on the Company's website. The Company's corporate governance documents are available in print to any shareholder who requests them.



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

This report and other written reports and oral statements made from time to time by the Company and its representatives contain forward-looking statements, including forward-looking statements made in this report, with respect to their current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties that could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations expressed in such forward-looking statements. The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Tyson undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may affect the operating results of the Company are the following: (i) fluctuations in the cost and availability of raw materials, such as live cattle, live swine or feed grain costs; (ii) changes in the availability and relative costs of labor and contract growers; (iii) operating efficiencies of facilities; (iv) market conditions for finished products, including the supply and pricing of alternative proteins; (v) effectiveness of advertising and marketing programs; (vi) the ability of the Company to make effective acquisitions and successfully integrate newly acquired businesses into existing operations; (vii) risks associated with leverage, including, but not limited to, cost increases due to rising interest rates; (viii) risks associated with effectively evaluating derivatives and hedging activities; (ix) changes in regulations and laws (both domestic and foreign), including, but not limited to, changes in accounting standards, environmental laws and occupational, health and safety laws; (x) issues related to food safety, including, but not limited to, costs resulting from product recalls, regulatory compliance and any related claims or litigation; (xi) adverse results from ongoing litigation; (xii) access to foreign markets together with foreign economic conditions, including currency fluctuations; and (xiii) the effect of, or changes in, general economic conditions.



**ITEM 2. PROPERTIES**

The Company currently has sales offices and production and distribution operations in the following states: Alabama, Arkansas, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington and Wisconsin. Additionally, the Company, either directly or through its subsidiaries, has facilities in or participates in joint venture operations in Argentina, Brazil, Canada, China, India, Indonesia, Ireland, Japan, Mexico, the Netherlands, Panama, the Philippines, Russia, Spain, the United Kingdom and Venezuela.

**Chicken** The Company's chicken operations consist of 60 processing plants. These plants are devoted to various phases of slaughtering, dressing, cutting, packaging, deboning or further-processing. The total slaughter capacity is approximately 48 million head per week. In addition, the Company owns 11 rendering plants with the capacity to produce 32 million pounds of animal protein products per week and 16 ground pet food processing operations in connection with chicken processing plants capable of producing nine million pounds of product per week. In addition, there are two blending mill operations, 39 feed mills and 64 broiler hatcheries with sufficient capacity to meet the needs of the chicken growout operations. During 2003, the feed mills operated at 72% of capacity, the hatcheries operated at 87% of capacity and the processing plants operated at 96% capacity.

**Beef** The Company's beef operations consist of 14 beef production facilities, four of which include case-ready operations, and a Canadian cattle feeding facility. These facilities slaughter live cattle, fabricate beef products and some treat and tan hides. One of the beef facilities contains a tallow refinery and two of the case-ready operations share facilities with the pork segment. The carcass facilities reduce live cattle to dressed carcass form. Fed beef consists primarily of steers and heifers specifically raised for beef consumption. The processing facilities conduct fabricating operations to produce boxed beef and allied products. The processing facilities operated in 2003 at approximately 84% of their production capacities. The total slaughter capacity is approximately 240,000 head per week.

**Pork** The Company's pork operations consist of eight pork production facilities, two of which include case-ready operations. These facilities slaughter live hogs and fabricate pork products and allied products. The two case-ready operations share facilities with the beef segment. The processing facilities operated in 2003 at approximately 82% of their production capacities. The total slaughter capacity of these facilities is approximately 427,000 head per week. Additionally the Company's live swine operations have 37 farrowing barns, 75 nursery houses and 69 finishing houses. The Company also utilizes live swine contract growers. The swine growout operations are supported by one dedicated feed mill supplemented by production from the chicken operations' feed mills.

**Prepared Foods** The Company's prepared foods operations consist of 34 processing plants which process fresh beef, pork, chicken and other raw materials into pizza toppings, branded and processed meats, appetizers, hors d'oeuvres, desserts, ethnic foods, soups, sauces, side dishes and pizza crusts, flour and corn tortilla products and specialty pasta and meat dishes. These processing plants have the capacity to produce approximately 61 million pounds per week and operated in 2003 at approximately 76% of capacity.

**Other** The Company's other operations consist of 11 distribution centers, as well as 11 cold storage facilities used by the beef and pork divisions, 44 cold storage facilities at chicken processing plants, three cold storage facilities at chicken rendering plants and five cold storage facilities used by prepared foods plants with a total capacity of approximately 300 million pounds.

The Company owns its major operating facilities with the following exceptions: one chicken emulsified plant is leased month to month, one hatchery is leased month to month, 422 chicken breeder farm houses are leased under agreements expiring at various dates through 2005, 31 chicken breeder farm



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houses are leased month to month and 30 broiler farms are leased year to year. Additionally, the Company's live swine operation leases 20 farrowing barns, 24 nursery houses and 38 finishing houses, with the majority expiring in 2004. One prepared foods distribution center is leased month to month and two prepared foods further processing facilities are leased until 2004 and 2005.

Management believes the Company's present facilities are generally adequate and suitable for its current purposes; however, seasonal fluctuations in inventories and production may occur as a reaction to market demands for certain products. The Company regularly engages in construction and other capital improvement projects intended to expand capacity and improve the efficiency of its processing and support facilities.

**ITEM 3. LEGAL PROCEEDINGS**

Refer to the discussion of certain legal proceedings pending against the Company under Part II., Item 8. Notes to Consolidated Condensed Financial Statements, Note 19: Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and its subsidiaries.

In January 1997, the State of Illinois brought suit in the Circuit Court for the 14th Judicial Circuit, Rock Island, Illinois, Chancery Division against IBP alleging that IBP's operations at its Joslin, Illinois, facility are violating the "odor nuisance" regulations enacted in the State of Illinois. IBP has already completed additional improvements at its Joslin facility to further reduce odors from this operation, but denies Illinois EPA's contention that its operations at any time amounted to a "nuisance." The Illinois EPA has alleged a damage claim of approximately $2,000,000. IBP is attempting to discuss these issues with the State of Illinois in an effort to reach a settlement. In May 2003, the State of

Illinois attempted to add the Company as a defendant in the suit, which the court subsequently denied. In September 2003, the State of Illinois served the Company with a complaint that had been filed in the Circuit Court for the 14th Judicial Circuit, Rock Island, Illinois, Chancery Division alleging substantially the same causes of action against the Company as had been alleged in the action against IBP. A motion to dismiss has been filed as to all claims.

In June 2001, IBP was advised the SEC had commenced a formal investigation related to the restatement of earnings made by IBP in March 2001, including matters relating to certain improprieties in the financial statements of DFG, a wholly-owned subsidiary. The Company has been informed that three former employees of DFG received a so-called "Wells" notice advising them that the SEC had determined to recommend the initiation of an enforcement action and providing them an opportunity to provide their arguments against such an enforcement action. IBP is cooperating with this investigation, and to date the SEC has made no claims against the Company.

In February 2002, the Company learned that a processing facility owned by Zemco Industries, Inc., a subsidiary of IBP, is the subject of an investigation by the U.S. Attorney's office in Bangor, Maine, into allegedly improper testing and recording practices. The Company acquired Zemco as part of the Company's acquisition of IBP on September 28, 2001. The Company learned in November 2003 that a former Zemco employee at the processing facility has agreed to plead guilty to charges in connection with the investigation. To date there has been no claim by the U.S. Attorney against Zemco, and Zemco will continue to cooperate with the U.S. Attorney's office.

**Other Matters** The Company has approximately 120,000 team members and at any time has various employment practices matters. In the aggregate, these matters are significant to the Company and the Company devotes significant resources to handling employment issues. Additionally, the Company is subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of its business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on the Company's consolidated results of operations or financial position.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**EXECUTIVE OFFICERS OF THE COMPANY**

Officers of the Company serve one year terms from the date of their election, or until their successors are appointed and qualified. The name, title, age and year of initial election to executive office of the Company's executive officers are listed below:



| Name | Title | Age | Year Elected |
|---|---|---|---|
| John Tyson | Chairman of the Board of Directors and Chief Executive Officer | 50 | 1984 |
| Richard L. Bond | President and Chief Operating Officer | 56 | 2001 |
| Greg Lee | Chief Administrative Officer and International President | 56 | 1993 |
| Les Baledge (1) | Executive Vice President and General Counsel | 46 | 1999 |

| | | | |
|---|---|---|---|
| Steven Hankins | Executive Vice President and Chief Financial Officer | 45 | 1997 |
| Eugene D. Leman | Senior Group Vice President, Fresh Meats | 61 | 2001 |
| Dennis Leatherby | Senior Vice President, Finance and Treasurer | 43 | 1990 |
| Rodney S. Pless | Senior Vice President, Controller and Chief Accounting Officer | 42 | 2000 |

No family relationships exist among the above officers. Mr. John Tyson was appointed Chairman of the Board of Directors and Chief Executive Officer in 2001 after serving as Chairman of the Board of Directors, President and Chief Executive Officer since 2000, Chairman of the Board of Directors since 1998 and Vice Chairman of the Board of Directors since 1997. Mr. Bond was appointed President and Chief Operating Officer in 2003, after serving as Co-Chief Operating Officer and Group President, Fresh Meats and Retail since 2001 and President and Chief Operating Officer of IBP from March 1997 until the merger of IBP into a wholly owned subsidiary of the Company on September 28, 2001. Mr. Lee was appointed Chief Administrative Officer and International President in 2003, after serving as Co-Chief Operating Officer and Group President, Food Service and International since 2001, Chief Operating Officer since 1999 and as President of the Foodservice Group since 1998. Mr. Baledge was appointed Executive Vice President and General Counsel in 2000 after serving as Executive Vice President and Associate General Counsel since 1999 upon joining Tyson. Prior to joining Tyson, Mr. Baledge was of counsel to the law firm of Kutak Rock LLP and a partner with the Rose Law Firm. Mr. Hankins was appointed Executive Vice President and Chief Financial Officer in 1998. Mr. Leman was appointed Senior Group Vice President, Fresh Meats in 2001 after serving as IBP's President of Fresh Meats since 1997 until the merger of IBP into a wholly owned subsidiary of the Company on September 28, 2001. Mr. Leatherby was appointed Senior Vice President, Finance and Treasurer in 1998. Mr. Pless was elected Senior Vice President, Controller and Chief Accounting Officer in 2001 after serving as Vice President, Controller and Chief Accounting Officer since 2000. Prior to joining Tyson, Mr. Pless was Vice President, Controller and Chief Accounting Officer for TransMontaigne, Inc.

(1) Les Baledge has announced his plans to retire his position as Executive Vice President and General Counsel effective January 1, 2004.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company currently has issued and outstanding two classes of capital stock, Class A Common Stock (Class A stock) and Class B Common Stock (Class B stock). Holders of Class B stock may convert such stock into Class A stock on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. On October 31, 2003, there were approximately 42,000 holders of record of the Company's Class A stock and 15 holders of record of the Company's Class B stock, excluding holders in the security position listings held by nominees.

### DIVIDENDS

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 the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock. The Company has paid uninterrupted quarterly dividends on its common stock each year since 1977 and expects to continue its cash dividend policy during fiscal 2004. In fiscal 2003, the annual dividend rate for Class A stock was $0.16 per share and the annual dividend rate for Class B stock was $0.144 per share.

**MARKET INFORMATION**

The Class A stock is traded on the New York Stock Exchange under the symbol "TSN." No public trading market currently exists for the Class B stock. The high and low closing sales prices of the Company's Class A stock for each quarter of fiscal 2003 and 2002 are represented in the table below.

| | Fiscal Year 2003 | | Fiscal Year 2002 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 12.77 | $ 9.64 | $ 12.13 | $ 8.75 |
| Second Quarter | 11.85 | 7.28 | 13.05 | 11.28 |
| Third Quarter | 10.90 | 7.75 | 15.56 | 12.20 |
| Fourth Quarter | 14.42 | 10.62 | 15.18 | 10.06 |

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**ITEM 6. SELECTED FINANCIAL DATA**

**ELEVEN-YEAR FINANCIAL SUMMARY**

in millions, except per share and ratio data

| | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| **Summary of Operations** | | | | | | |
| Sales | $24,549 | $23,367 | $10,563 | $7,268 | $7,621 | $7,414 |
| Cost of sales | 22,805 | 21,550 | 9,660 | 6,453 | 6,470 | 6,260 |
| Gross profit | 1,744 | 1,817 | 903 | 815 | 1,151 | 1,154 |
| Operating income | 837 | 887 | 316 | 349 | 487 | 204 |
| Interest expense | 296 | 305 | 144 | 116 | 124 | 139 |
| Provision for income taxes | 186 | 210 | 58 | 83 | 129 | 46 |
| Net income (loss) | $337 | $383 | $88 | $151 | $230 | $25 |
| Year end shares outstanding | 353 | 353 | 349 | 225 | 229 | 231 |
| Diluted average shares outstanding | 352 | 355 | 222 | 226 | 231 | 228 |
| Diluted earnings (loss) per share | $0.96 | $1.08 | $0.40 | $0.67 | $1.00 | $0.11 |
| Basic earnings (loss) per share | 0.98 | 1.10 | 0.40 | 0.67 | 1.00 | 0.11 |
| Dividends per share: | | | | | | |
| Class A | 0.160 | 0.160 | 0.160 | 0.160 | 0.115 | 0.100 |
| Class B | 0.144 | 0.144 | 0.144 | 0.144 | 0.104 | 0.090 |
| Depreciation and amortization | $458 | $467 | $335 | $294 | $291 | $276 |
| **Balance Sheet Data** | | | | | | |
| Capital expenditures | $402 | $433 | $261 | $196 | $363 | $310 |
| Total assets | 10,486 | 10,372 | 10,632 | 4,841 | 5,083 | 5,242 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net property, plant and equipment | 4,039 | 4,038 | 4,085 | 2,141 | 2,185 | 2,257 |
| Total debt | 3,604 | 3,987 | 4,776 | 1,542 | 1,804 | 2,129 |
| Shareholders' equity | $3,954 | $3,662 | $3,354 | $2,175 | $2,128 | $1,970 |
| **Other Key Financial Measures** | | | | | | |
| Return on sales | 1.4% | 1.6% | 0.8% | 2.0% | 3.0% | 0.3% |
| Annual sales growth (decline) | 5.1% | 121.2% | 45.3% | (4.6)% | 2.8% | 16.7% |
| Gross margin | 7.1% | 7.8% | 8.5% | 11.2% | 15.1% | 15.6% |
| Return on beginning shareholders' equity | 9.2% | 11.4% | 4.0% | 7.1% | 11.7% | 1.5% |
| Effective tax rate | 35.5% | 35.5% | 35.4% | 35.6% | 34.9% | 64.7% |
| Total debt to capitalization | 47.7% | 52.1% | 58.7% | 41.5% | 45.9% | 51.9% |
| Book value per share | $11.21 | $10.37 | $9.61 | $9.67 | $9.31 | $8.53 |
| Closing stock price high | 14.42 | 15.56 | 14.19 | 18.00 | 25.38 | 24.44 |
| Closing stock price low | $7.28 | $8.75 | $8.35 | $8.56 | $15.00 | $16.50 |



**ELEVEN-YEAR FINANCIAL SUMMARY**

in millions, except per share and ratio data

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Summary of Operations** | | | | | |
| Sales | $6,356 | $6,454 | $5,511 | $5,110 | $4,707 |
| Cost of sales | 5,318 | 5,506 | 4,423 | 4,149 | 3,797 |
| Gross profit | 1,038 | 948 | 1,088 | 961 | 911 |
| Operating income | 400 | 269 | 472 | 195 | 376 |
| Interest expense | 110 | 133 | 115 | 86 | 73 |
| Provision for income taxes | 144 | 49 | 131 | 121 | 129 |
| Net income (loss) | $186 | $87 | $219 | $(2) | $180 |
| Year end shares outstanding | 213 | 217 | 217 | 218 | 221 |
| Diluted average shares outstanding | 218 | 218 | 218 | 222 | 223 |
| Diluted earnings (loss) per share | $0.85 | $0.40 | $1.01 | $(0.01) | $0.81 |
| Basic earnings (loss) per share | 0.86 | 0.40 | 1.01 | (0.01) | 0.82 |
| Dividends per share: | | | | | |
| Class A | 0.095 | 0.080 | 0.053 | 0.047 | 0.027 |
| Class B | 0.086 | 0.072 | 0.044 | 0.039 | 0.022 |
| Depreciation and amortization | $230 | $239 | $205 | $188 | $177 |
| **Balance Sheet Data** | | | | | |
| Capital expenditures | $291 | $214 | $347 | $232 | $225 |
| Total assets | 4,411 | 4,544 | 4,444 | 3,668 | 3,254 |
| Net property, plant and equipment | 1,925 | 1,869 | 2,014 | 1,610 | 1,435 |

| | | | | | |
|---|---|---|---|---|---|
| Total debt | 1,690 | 1,975 | 1,985 | 1,455 | 1,024 |
| Shareholders' equity | $1,621 | $1,542 | $1,468 | $1,289 | $1,361 |
| **Other Key Financial Measures** | | | | | |
| Return on sales | 2.9% | 1.4% | 4.0% | 0.0% | 3.8% |
| Annual sales growth (decline) | (1.5)% | 17.1% | 7.9% | 8.6% | 12.9% |
| Gross margin | 16.3% | 14.7% | 19.7% | 18.8% | 19.4% |
| Return on beginning shareholders' equity | 12.1% | 5.9% | 17.0% | (0.2)% | 18.4% |
| Effective tax rate | 43.6% | 37.0% | 38.1% | 101.8% | 41.8% |
| Total debt to capitalization | 51.0% | 56.2% | 57.5% | 53.0% | 42.9% |
| Book value per share | $7.60 | $7.09 | $6.76 | $5.92 | $6.16 |
| Closing stock price high | 23.63 | 18.58 | 18.17 | 16.67 | 18.08 |
| Closing stock price low | $17.75 | $13.83 | $13.83 | $12.50 | $12.83 |



Notes to Eleven-Year Financial Summary

1. The results for 2003 include $167 million of pretax gains related to vitamin antitrust litigation settlements received and $76 million of pretax charges related to the closing of four poultry operations.
2. The results for 2002 include a $27 million pretax charge related to the identifiable intangible asset write-down of the Thomas E. Wilson brand, $26 million pretax charge for live swine restructuring charge, $22 million pretax gain related to the sale of Specialty Brands and $30 million pretax gain related to vitamin antitrust litigation settlements received.
3. The results for 2001 include $26 million in pretax charges for expenses related to the IBP acquisition, loss on sale of swine assets, and product recall losses.
4. The results for 2000 include a $24 million pretax charge for bad debt writeoff related to the January 2000 bankruptcy filing of AmeriServe Food Distribution, Inc. and a $9 million pretax charge related to Tyson de Mexico losses.
5. Certain costs for years 1999 and prior have not been reclassified as the result of the application of EITF 00-14 and EITF 00-25.
6. The results for 1999 include a $77 million pretax charge for loss on sale of assets and impairment write-downs.
7. Significant business combinations accounted for as purchases: IBP, inc., Hudson Foods, Inc. and Arctic Alaska Fisheries Corporation in August 2001 and September 2001, January 1998 and October 1992, respectively. See Note 2 to the Consolidated Financial Statements for acquisitions during the three-year period ended September 27, 2003.
8. The results for 1998 include a $215 million pretax charge for asset impairment and other charges.
9. The results for 1997 include a $41 million pretax gain ($4 million after tax) from the sale of the beef division assets.
10. The results for 1994 include a $214 million pretax charge ($205 million after tax) due to the write-down of certain long-lived assets of Arctic Alaska Fisheries Corporation.

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**ITEM 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS**

Earnings for fiscal 2003 were $337 million or $0.96 per diluted share compared to $383 million or $1.08 per diluted share in fiscal 2002. Fiscal 2003 pretax earnings include $167 million received in connection with vitamin antitrust litigation and $76 million of costs related to the closing of poultry operations during the first, third and fourth quarters of fiscal 2003.

The Company's accounting cycle resulted in a 52-week year for fiscal years 2003, 2002 and 2001.

**2003 vs. 2002**

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

**Sales** increased $1.2 billion or 5.1%, with a slight increase in volume and a 5.0% increase in price.

**Cost of sales** increased $1.3 billion or 5.8%. As a percent of sales, cost of sales was 92.9% for 2003 compared to 92.2% for 2002. This increase is primarily due to higher live cattle prices in the Beef segment, increases in grain costs in the Chicken segment and increased accruals related to ongoing litigation, partially offset by $167 million received in connection with vitamin antitrust litigation.

**Selling, general and administrative expenses** decreased $46 million or 5.4%. As a percent of sales, selling, general and administrative expenses decreased from 3.8% to 3.4%. The decrease is primarily due to the expense reductions of approximately $42 million related to the sale of Specialty Brands in the fourth quarter of fiscal 2002, and approximately $16 million associated with the ongoing integration of Tyson and IBP, inc. (IBP) corporate functions. Additional decreases were due to favorable investment returns of approximately $18 million on Company owned life insurance, actuarial gains of $13 million related to changes in certain retiree medical benefit plans and decreased litigation costs of approximately $19 million resulting primarily from the reversal of certain legal accruals which are no longer required due to cases being closed. The decreases in selling, general and administrative expenses were partially offset by increased professional fees of approximately $26 million primarily related to the Company's ongoing integration and strategic initiatives and increased sales promotions and marketing costs of approximately $45 million primarily due to the introduction and rollout of several new products.

**Other charges** include $76 million of plant closing costs incurred in fiscal 2003, and $53 million of charges incurred in fiscal 2002 related to the discontinuation of the Thomas E. Wilson brand and the restructuring of the Company's live swine operations.

**Interest expense** decreased $9 million or 2.8% compared to 2002, primarily resulting from an 8.2% decrease in the Company's average indebtedness. As a percent of sales, interest expense was 1.2% compared to 1.3% for 2002. The overall weighted average borrowing rate increased to 7.4% from 7.0%, primarily resulting from premiums paid on bonds repurchased in the first and fourth quarters of fiscal 2003. Excluding the premiums paid, interest expense decreased $21 million.

**Other expense** increased $29 million from the same period last year, primarily resulting from the $10 million write-down related to the impairment of an equity interest in a live swine operation recorded in fiscal 2003, and the prior year gain of $22 million from the sale of the Specialty Brands, Inc. subsidiary.

**The effective tax rate** was 35.5% in both 2003 and 2002. Several factors impact the effective tax rate including average state income tax rates, the tax rates for international operations and the Extraterritorial Income Exclusion (ETI) for foreign sales. Taxes on international earnings were comparable for 2003 and 2002. Average state taxes added 2.2% and 3% to the effective tax rate for 2003 compared to 2002 and ETI reduced the effective rate by 1.9% in 2003 compared to a 1.4% reduction in 2002. Various legislative bills have been introduced in 2003 which would repeal the ETI exclusion over a period of time, and replace ETI with a partial tax exclusion for certain domestic production activities. If the ETI exclusion is repealed and replacement legislation is not enacted,



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the loss of the ETI tax benefit may adversely impact the Company's effective tax rate.

**Segment Information**

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

**Chicken segment** is primarily involved in the processing of live chickens into fresh, frozen and value-added chicken products sold through domestic foodservice, domestic food retailers, wholesale club markets that service small foodservice operations, small businesses and individuals, as well as specialty and commodity distributors who deliver to restaurants, schools and international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

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

**Pork segment** is primarily involved in the processing of live market hogs and fabrication of pork carcasses into primal and sub-primal meat cuts and case-ready products. This segment also represents the Company's live swine group and related allied product processing activities. The Pork segment markets its products to food retailers, distributors, wholesalers, restaurants, hotel chains and other food processors in domestic and international markets. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine and weaned and feeder pigs to pork producers.

**Prepared Foods segment** includes the Company's operations that manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork toppings, pizza crusts, flour and corn tortilla products, appetizers, hors d'oeuvres, desserts, prepared meals, ethnic foods, soups, sauces, side dishes, specialty pasta and meat dishes as well as branded and processed meats. The Prepared Foods segment markets its products to food retailers, distributors, wholesalers, restaurants and hotel chains.

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

| *Sales by Segment* | | | | | | in millions |
|---|---|---|---|---|---|---|
| | | 2003 | | 2002 | | Change |
| Chicken | $ | 7,427 | $ | 7,222 | $ | 205 |
| Beef | | 11,935 | | 10,488 | | 1,447 |
| Pork | | 2,470 | | 2,503 | | (33) |
| Prepared Foods | | 2,662 | | 3,072 | | (410) |
| Other | | 55 | | 82 | | (27) |
| Total | $ | 24,549 | $ | 23,367 | $ | 1,182 |

| *Operating Income by Segment* | | | | | | in millions |
|---|---|---|---|---|---|---|
| | | 2003 | | 2002 | | Change |
| Chicken | $ | 158 | $ | 428 | $ | (270) |
| Beef | | 320 | | 220 | | 100 |
| Pork | | 75 | | 25 | | 50 |
| Prepared Foods | | 57 | | 158 | | (101) |
| Other | | 227 | | 56 | | 171 |
| Total | $ | 837 | $ | 887 | $ | (50) |

**Chicken segment** sales increased $205 million or 2.8%, with a slight decrease in average sales prices and a 3.3% increase in volume. Foodservice chicken sales dollars increased 4.2%, retail chicken sales dollars increased 2.3% and international chicken sales dollars decreased 3.6%. Chicken segment operating income decreased $270 million from the same period last year primarily due to increased grain costs and plant closing costs.

**Beef segment** sales increased $1.4 billion or 13.8%, with a 13.2% increase in average sales prices and a slight increase in volume. Case-ready beef sales were $957 million and increased 20.4%, domestic fresh meat beef sales increased 11.8% and international beef sales increased 19.4%. Beef segment operating income increased $100 million. The Beef segment sales and operating income increases were caused by strong demand during the second half of fiscal 2003 caused in part by the U.S. ban on Canadian beef. However, these increases were partially offset by an increase in live cattle prices.

**Pork segment** sales decreased $33 million or 1.3%, with a 2.9% increase in average sales prices and a 4.1% decrease in volume. Case-ready pork sales were $221 million and increased 52.3%, domestic fresh meat pork sales decreased 3.5%, international pork sales increased 2.8% and live swine sales decreased 42.6%. Pork segment operating income increased $50 million. Excluding the fourth quarter 2002 live swine restructuring charge of $26 million, operating income increased $24 million. The decline in sales is primarily due to a reduction in live swine sales as a result of the prior year live swine restructuring and lower average selling prices for our finished product. Operating income was positively affected by the prior year restructuring of the live swine operation, partially offset by higher live hog prices.

**Prepared Foods segment** sales decreased $410 million or 13.4%, with a 5.9% decrease in average sales prices and an 8.0% decrease in volume. Excluding prior year Specialty Brands sales of $244 million, segment sales declined $166 million and volume declined slightly. Segment operating income decreased $101 million from the same period last year. Excluding the prior year Thomas E. Wilson brand write-down of $27 million, operating income declined $128 million. This decline results primarily from the increases during the year in raw material prices, lower average selling prices, increased costs related to the introduction of more than 75 new products this year and temporary operating inefficiencies at certain plants.

**Other segment** operating income increased $171 million primarily due to settlements received in connection with the vitamin antitrust litigation. Current year results include $167 million as compared to $30 million received in fiscal 2002. Additionally, operating income was positively affected by actuarial gains of $13 million resulting from changes to certain retiree medical benefit plans.

**2002 vs. 2001**

On August 3, 2001, the Company acquired 50.1% ownership of IBP and acquired the remaining 49.9% on September 28, 2001. Accordingly, fiscal 2002 earnings include 52 weeks of IBP's results of operations, while fiscal 2001 fourth quarter and 12 months results include 50.1% of IBP's results for the nine weeks ended September 29, 2001. This information should be considered when comparing to fiscal 2001 results of operations.

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

In accordance with the provisions issued in Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets," which the Company adopted at the beginning of fiscal 2002, goodwill and indefinite lived assets are no longer amortized. The effect on fiscal year 2001 results would have been an increase of approximately $0.14 cents per diluted share.

In accordance with the guidance provided in Emerging Issues Task Force (EITF) Issue No. 00-14, "Accounting for Certain Sales Incentives," and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," beginning in the first quarter of fiscal 2002, the Company classifies the costs associated with sales incentives provided to retailers and payments such as slotting fees and cooperative advertising to vendors as a reduction in sales. These costs were previously included in selling, general and administrative expense. These reclassifications resulted in a reduction to sales and selling, general and administrative expense of approximately $188 million for fiscal year 2001, and had no impact on reported income before income taxes and minority interest, net income or earnings per share amounts.



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**Sales** increased $13 billion or 121.2%, with a 98.9% increase in volume and an 11.2% increase in price. The increase in sales volume and price is primarily due to the inclusion of IBP's sales in fiscal 2002. Despite lower commodity prices, sales prices increased due to product mix changes as the Company's value-added businesses grew.

**Cost of sales** increased $12 billion or 123.1%, primarily due to the inclusion of IBP's cost of sales in fiscal 2002. As a percent of sales, cost of sales was 92.2% for 2002 compared to 91.5% for 2001.

**Selling, general and administrative expenses** increased $290 million or 49.5%, primarily due to the inclusion of IBP's operations in fiscal 2002. As a percent of sales, operating expenses were 3.8% for 2002 compared to 5.6% in 2001. In its effort to integrate, restructure and reorganize, the Company improved efficiencies and lowered plant operating costs. These costs were also reduced through other cost-containment efforts and improved sales expense management.

**Other charges** include $27 million related to the discontinuation of the Thomas E. Wilson brand and $26 million related to the restructuring of the Company's live swine operation.

**Interest expense** increased 111.8% compared to 2001. As a percent of sales, interest expense was 1.3% compared to 1.4% for 2001. The Company's average indebtedness increased by 109.7% over fiscal 2001 due to debt incurred to purchase IBP. The Company's short-term interest rates decreased to 3.3% in fiscal 2002 as compared to 5.1% in fiscal 2001. The overall weighted average borrowing rate on total debt was 7.0% for fiscal 2002 compared to 6.9% for fiscal 2001.

**Other income** increased in the current year due to a gain of $22 million from the sale of the Specialty Brands, Inc. subsidiary.

**The effective tax rate** was 35.5% in 2002 compared to 35.4% in 2001. The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), at the beginning of 2002. Under SFAS No. 142 the Company no longer amortized goodwill which resulted in a decrease in the effective tax rate for 2002, offset primarily by a reduction in the foreign sales benefit.

**Segment Information**

For the periods ending September 28, 2002, and September 29, 2001, the following information includes 100% of IBP results for 52 weeks and nine weeks, respectively. Information on segments is as follows:

| *Sales by Segment* | | | | | | in millions |
|---|---|---|---|---|---|---|
| | | 2002 | | 2001 | | Change |
| Chicken | $ | 7,222 | $ | 7,057 | $ | 165 |
| Beef | | 10,488 | | 2,027 | | 8,461 |
| Pork | | 2,503 | | 619 | | 1,884 |
| Prepared Foods | | 3,072 | | 818 | | 2,254 |
| Other | | 82 | | 42 | | 40 |
| Total | $ | 23,367 | $ | 10,563 | $ | 12,804 |

| *Operating Income (Loss) by Segment* | | | | | | in millions |
|---|---|---|---|---|---|---|
| | | 2002 | | 2001 | | Change |
| Chicken | $ | 428 | $ | 250 | $ | 178 |
| Beef | | 220 | | 32 | | 188 |
| Pork | | 25 | | 27 | | (2) |
| Prepared Foods | | 158 | | 15 | | 143 |
| Other | | 56 | | (8) | | 64 |
| Total | $ | 887 | $ | 316 | $ | 571 |

**Chicken segment** sales increased $165 million or 2.3% compared to 2001, with a 1.1% increase in average sale prices and a 1.2% increase in volume.



Foodservice chicken sales increased 4.9%, retail chicken sales increased 2.0% and international chicken sales decreased 6.3%. In fiscal 2002, the Company's Mexican subsidiary sales increased 36.1% due to the acquisition of a production facility in Mexico in the third quarter of 2001. This increase was more than offset by decreases in other international sales demand as markets were impacted by import restrictions and political pressures primarily in Russia and China. Operating income for Chicken increased $178 million as compared to 2001, primarily due to decreases in live and production costs along with improvements in price and growth in value-added product mix. Additionally, fiscal 2001 costs were negatively impacted by weather related effects and higher grain and energy costs.

**Beef segment** sales were $10.5 billion, including beef case-ready sales of $795 million and international beef sales of $1.4 billion. Beef segment operating income totaled $220 million. The Beef segment resulted from the acquisition of IBP in the fourth quarter of fiscal 2001.

**Pork segment** sales including IBP's pork processing revenues were $2.5 billion compared to $619 million in 2001, including fiscal 2002 pork case-ready sales of $145 million and international pork sales of $248 million. Pork segment operating income decreased $2 million from 2001. Sales and operating income were positively affected by the inclusion of the IBP pork processing results in fiscal 2002. However, both were impacted by the negative results of the live swine operation. Operating income was also affected by the restructuring charge related to the Company's live swine operation of approximately $26 million in the fourth quarter of fiscal 2002.

**Prepared Foods segment** sales increased $2.3 billion compared to 2001. The Prepared Foods segment operating income increased $143 million. The increase in both sales and operating income is primarily due to the inclusion of IBP results. Operating income was also influenced by lower and more stable raw material prices and improvement in product mix. These increases were partially offset by the Thomas E. Wilson write-down of $27 million related to the discontinuation of the brand.

**Other segment** operating income increased $64 million primarily due to the partial settlement of approximately $30 million received in the third quarter of fiscal 2002 related to vitamin antitrust litigation combined with prior year IBP merger related expenses of $19 million.

**ACQUISITIONS**

In August 2001, the Company acquired 50.1% of IBP by paying approximately $1.7 billion in cash. In September 2001, the Company issued approximately 129 million shares of Class A stock, with a fair value of approximately $1.2 billion, to acquire the remaining IBP shares, and assumed approximately $1.7 billion of IBP debt. The total acquisition cost of approximately $4.6 billion was accounted for as a purchase in accordance with SFAS No. 141, "Business Combinations." Accordingly, the tangible and identifiable intangible assets and liabilities have been adjusted to fair values with the remainder of the purchase price recorded as goodwill. The allocation of the purchase price has been completed.

In May 2002, the Company acquired the assets of Millard Processing Services, a bacon processing operation, for approximately $73 million in cash. The acquisition has been accounted for as a purchase, and goodwill of approximately $14 million has been recorded.

**DISPOSITION**

In September 2002, the Company completed the sale of its Specialty Brands, Inc. subsidiary. The subsidiary had been acquired with the IBP acquisition and its results of operations were included in the Company's Prepared Foods segment. The Company received cash proceeds of approximately $131 million, which were used to reduce indebtedness, and recognized a pretax gain of $22 million. Specialty Brands, Inc.'s sales and operating income for the year ended September 28, 2002, were $244 million and $2 million, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash provided by operations continues to be the Company's primary source of funds to finance operating requirements and capital expenditures. In 2003, net cash of $820 million was provided by operating activities, down $354 million from 2002. The decrease from fiscal 2002 is primarily due to a net change in working capital of $423 million and a decrease in net income of $46 million, partially offset by an increase in deferred taxes of $91 million. The change in working capital is primarily due to increased accounts receivable resulting from increased sales and increased inventory values, as well as the timing of cash receipts and payments related to other working capital items. The Company's foreseeable cash needs for operations and capital expenditures are expected to continue to be met through cash flows provided by operating activities. Additionally, at September 27, 2003, the Company had borrowing capacity of $1.5 billion consisting of $705 million available under its $1 billion unsecured revolving credit facilities and $750 million under its accounts receivable securitization. At September 27, 2003, the Company had construction projects in progress that will require approximately $175 million to complete. Capital spending for fiscal 2004 is expected to be in the range of $450 to $500 million, which includes spending on plant automation as well as information systems technology improvements. Additionally, on December 5, 2003, the Company announced that in order to further improve long-term manufacturing efficiencies, it will be closing facilities in Manchester, New Hampshire, and Augusta, Maine, in early 2004. The Company anticipates recording pretax charges related to these closings of approximately $23 to $27 million or $0.04 to $0.05 per diluted share in the first half of fiscal 2004.

| *Cash Provided by Operating Activities* | | | in millions |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | $ 820 | $ 1,174 | $ 511 |

Total debt at September 27, 2003, was $3,604 million, a decrease of approximately $383 million from September 28, 2002. The Company has unsecured revolving credit facilities totaling $1 billion that support the Company's commercial paper program. These $1 billion in facilities consist of $200 million that expire in June 2004, $300 million that expire in June 2005 and $500 million that expire in September 2006. At September 27, 2003, there were no borrowings outstanding under these facilities. Additional outstanding debt at September 27, 2003, consisted of $3.3 billion of debt securities, $32 million of commercial paper and other indebtedness of $256 million.

| *Total Capitalization* | | | in millions |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Debt | $ 3,604 | $ 3,987 | $ 4,776 |
| Equity | 3,954 | 3,662 | 3,354 |

The revolving credit facilities, senior notes, notes and accounts receivable securitization contain various covenants, the more restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. The Company is in compliance with these covenants at fiscal year end.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements that are material to its financial position or results of operations. The off-balance sheet arrangements the Company has are guarantees of debt of outside third parties involving letters of credit, a lease, grower loans and residual value guarantees covering certain operating leases for various types of equipment. See Note 9 to the Consolidated Financial Statements for further discussions of these guarantees.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. The Interpretation was originally effective immediately for variable interest entities created after January 31, 2003, and effective in the fourth quarter of the Company's fiscal 2003 for those created prior to February 1, 2003. However, in October 2003, the FASB deferred the effective date for those variable interest entities created prior to February 1, 2003, until the Company's first quarter of fiscal 2004. The Company has substantially completed the process of evaluating the Interpretation and believes its adoption will not have a material impact on its financial position or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative



instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The standard is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company's adoption of SFAS No. 149 did not have a material impact on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes how an issuer classifies and measures certain freestanding financial instruments with characteristics of liabilities and equity and requires that such instruments be classified as liabilities. The standard is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective in the fourth quarter of the Company's fiscal 2003. The Company's adoption of SFAS No. 150 did not have a material impact on its financial position or results of operations.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates considered critical by the Company.

**Financial instruments** The Company uses derivative financial instruments to manage its exposure to various market risks, including certain livestock, natural gas, interest rates and grain and feed costs. The Company may hold positions as economic hedges for which hedge accounting is not applied. See Item 7A. Quantitative and Qualitative Disclosure About Market Risks.

**Contingent liabilities** The Company is subject to lawsuits, investigations and other claims related to wage and hour/labor, cattle procurement, securities, environmental, product and other matters, and is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after considerable analysis of each individual issue. These reserves may change in the future due to changes in the Company's assumptions, the effectiveness of strategies or other factors beyond the Company's control. See Note 19 to the Consolidated Financial Statements.

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

**Impairment of Long-Lived assets** The Company is required to assess potential impairments to its long-lived assets, which are primarily property, plant and equipment. If impairment indicators are present, the Company must measure the fair value of the assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," to determine if adjustments are to be recorded.

**Goodwill and Intangible Asset Impairment** In assessing the recoverability of the Company's goodwill and other intangible assets, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates and related assumptions change in the future, the Company may be required to record impairment charges not previously recorded. On September 30, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and was required to assess its goodwill for impairment issues upon adoption, and then at least annually thereafter. See Note 1 to the Consolidated Financial Statements.



**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

**MARKET RISK**

Market risks relating to the Company's operations result primarily from changes in commodity prices, interest rates and foreign exchange rates as well as credit risk concentrations. To address certain of these risks, the Company enters into various derivative transactions as described below. If a derivative instrument is a hedge, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended, depending on the nature of the hedge, changes in the fair value of the instrument will be either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value, as defined by SFAS No. 133, as amended, will be immediately recognized in earnings as a component of cost of sales. Instruments that do not meet the criteria for hedge accounting are marked to fair value with unrealized gains or losses reported currently in earnings. Additionally, the Company holds certain positions, primarily in grain and livestock futures and options, for which it does not apply hedge accounting, but instead marks these positions to fair value through earnings at each reporting date.

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

**Commodities Risk** The Company is a purchaser of certain commodities, such as corn, soybeans, livestock and natural gas in the course of normal operations. The Company uses commodity futures and options for hedging purposes to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. Generally, contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts that are highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of September 27, 2003, and September 28, 2002, respectively, on 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 positions. The underlying commodities hedged have a correlation to price changes of the derivative positions such that the values of the commodities hedged based on differences between commitment prices and market prices and the value of the derivative positions used to hedge these commodity obligations are inversely correlated. The following sensitivity analysis reflects an inverse impact on earnings for changes in the fair value of open positions for livestock and natural gas and a direct impact on earnings for changes in the fair value of open positions for grain.

| Effect of 10% change in fair value | | | | in millions |
|---|---|---|---|---|
| | | 2003 | | 2002 |
| Livestock: | | | | |
| Cattle | $ | 28 | $ | 12 |
| Hogs | | 12 | | 5 |
| Grain | $ | 26 | $ | 14 |
| Natural Gas | $ | 11 | $ | - |

**Interest Rate Risk** The Company has exposure to changes in interest rates on its fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates, and amounts to approximately $62 million at September 27, 2003. The fair values of the Company's long-term debt were estimated based upon quoted market prices and or published interest rates.

The Company hedges exposure to changes in interest rates on certain of its financial instruments. Under the terms of various leveraged equipment loans, the Company enters into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings. The maturity dates of these leveraged



equipment loans range from 2005 to 2008 with interest rates ranging from 4.7% to 6.0%. Because of the positions taken with respect to these swap agreements, an increase in interest rates would have a minimal effect on the fair value for fiscal years 2003 and 2002.

**Foreign Currency Risk** The Company also periodically enters into foreign exchange forward contracts to hedge some of its foreign currency exposure. The Company enters into forward contracts to hedge exposure to U.S. currency fluctuations inherent in its receivables and purchase commitments. There were no such contracts outstanding at September 27, 2003, and the fair value of forward contracts at September 28, 2002, was not significant. Foreign forward contracts generally have maturities or expirations not exceeding 12 months. A 10% change in the exchange rate of the currencies hedged at September 28, 2002, would have changed the fair value of the contracts by $4 million.

**Concentrations of Credit Risk** The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company's cash equivalents are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At September 27, 2003, approximately 10.3% of the Company's net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**TYSON FOODS, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Three years ended September 27, 2003 in millions, except per share data | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Sales | $ 24,549 | $ 23,367 | $ 10,563 |
| Cost of Sales | 22,805 | 21,550 | 9,660 |
| Operating Expenses: | | | |
| | 1,744 | 1,817 | 903 |
| Selling, general and administrative | 831 | 877 | 587 |
| Other charges | 76 | 53 | - |
| Operating Income | 837 | 887 | 316 |
| Other Expense (Income): | | | |
| Interest | 296 | 305 | 144 |
| Other | 18 | (11) | 7 |
| | 314 | 294 | 151 |
| Income Before Income Taxes and Minority Interest | 523 | 593 | 165 |
| Provision for Income Taxes | 186 | 210 | 58 |
| Minority Interest | - | - | 19 |
| Net Income | $ 337 | $ 383 | $ 88 |
| Weighted Average Shares Outstanding: | | | |
| Basic | 346 | 348 | 221 |
| Diluted | 352 | 355 | 222 |
| Earnings Per Share: | | | |
| Basic | $ 0.98 | $ 1.10 | $ 0.40 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Diluted | $ | 0.96 | $ | 1.08 | $ | 0.40 |

See accompanying notes



**TYSON FOODS, INC.**
**CONSOLIDATED BALANCE SHEETS**

September 27, 2003 and September 28, 2002

in millions, except per share data

| | | 2003 | | 2002 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ | 25 | $ | 51 |
| Accounts receivable, net | | 1,280 | | 1,101 |
| Inventories | | 1,994 | | 1,885 |
| Other current assets | | 72 | | 107 |
| Total Current Assets | | 3,371 | | 3,144 |
| Net Property, Plant and Equipment | | 4,039 | | 4,038 |
| Goodwill | | 2,652 | | 2,633 |
| Intangible Assets | | 182 | | 190 |
| Other Assets | | 242 | | 367 |
| Total Assets | $ | 10,486 | $ | 10,372 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current Liabilities: | | | | |
| Current debt | $ | 490 | $ | 254 |
| Trade accounts payable | | 838 | | 755 |
| Other current liabilities | | 1,147 | | 1,084 |
| Total Current Liabilities | | 2,475 | | 2,093 |
| Long-Term Debt | | 3,114 | | 3,733 |
| Deferred Income Taxes | | 722 | | 643 |
| Other Liabilities | | 221 | | 241 |
| Shareholders' Equity: | | | | |

| | | |
|---|---|---|
| Common stock ($0.10 par value): | | |
| Class A-authorized 900 million shares: Issued 267 million shares in 2003 and 2002 | 27 | 27 |
| Class B-authorized 900 million shares: Issued 102 million shares in 2003 and 2002 | 10 | 10 |
| Capital in excess of par value | 1,861 | 1,879 |
| Retained earnings | 2,380 | 2,097 |
| Accumulated other comprehensive loss | (15) | (49) |
| | 4,263 | 3,964 |
| Less treasury stock, at cost- 16 million shares in 2003 and 2002 | 252 | 265 |
| Less unamortized deferred compensation | 57 | 37 |
| Total Shareholders' Equity | 3,954 | 3,662 |
| Total Liabilities and Shareholders' Equity | $ 10,486 | $ 10,372 |

See accompanying notes



**TYSON FOODS, INC.**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

Three years ended September 27, 2003
in millions

| | Common Stock | | | | Capital | |
|---|---|---|---|---|---|---|
| | Class A | | Class B | | In Excess Of | Retained |
| | Shares | Amount | Shares | Amount | Par Value | Earnings |
| Balance-September 30, 2000 | 138 | $14 | 103 | $10 | $735 | $1,715 |
| Comprehensive Income: | | | | | | |
| Net income | | | | | | 88 |
| Other comprehensive income (loss) net of tax of $(11) million | | | | | | |
| Cumulative effect of SFAS 133 adoption (net of $(3) million tax) | | | | | | |
| Derivative loss recognized in cost of sales (net of $(3) million tax) | | | | | | |
| Derivative unrealized loss (net of $(6) million tax) | | | | | | |
| Unrealized gain on investments (net of $1 million tax) | | | | | | |
| Currency translation adjustment | | | | | | |
| Total Comprehensive income | | | | | | |
| Purchase of Treasury Shares | | | | | | |
| Restricted Shares Cancelled | | | | | | |
| Shares Issued in IBP Acquisition | 129 | 13 | | | 1,185 | |
| Dividends Paid | | | | | | (33) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Amortization of Deferred Compensation | | | | | | |
| Balance-September 29, 2001 | 267 | 27 | 103 | 10 | 1,920 | 1,770 |
| | | | | | | |
| Net income | | | | | | 383 |
| Other comprehensive income (loss) net of tax of $(5) million | | | | | | |
| Derivative gain recognized in cost of sales (net of $2 million tax) | | | | | | |
| Derivative unrealized loss (net of $(1) million tax) | | | | | | |
| Unrealized loss on investments (net of $(1) million tax) | | | | | | |
| Currency translation adjustment | | | | | | |
| Additional pension liability (net of $(5) million tax | | | | | | |
| Total Comprehensive income | | | | | | |
| Purchase of Treasury Shares | | | | | | |
| Restricted Shares Issued | | | | | (41) | |
| Restricted Shares Cancelled | | | | | 2 | |
| Dividends Paid | | | | | | (56) |
| Amortization of Deferred Compensation | | | | | | |
| Other | | | (1) | | (2) | |
| Balance-September 28, 2002 | 267 | 27 | 102 | 10 | 1,879 | 2,097 |
| Comprehensive Income: | | | | | | |
| Net income | | | | | | 337 |
| Other comprehensive income (loss) net of tax of $8 million | | | | | | |
| Derivative loss recognized in cost of sales (net of $(1) million tax) | | | | | | |
| Derivative unrealized gain (net of $7 million tax) | | | | | | |
| Unrealized gain on investments (net of $1 million tax) | | | | | | |
| Currency translation adjustment | | | | | | |
| Additional pension liability (net of $2 million tax) | | | | | | |
| Total Comprehensive income | | | | | | |
| Purchase of Treasury Shares | | | | | | |
| Restricted Shares Issued | | | | | (19) | |
| Restricted Shares Cancelled | | | | | 1 | |
| Dividends Paid | | | | | | (54) |
| Amortization of Deferred Compensation | | | | | | |
| Balance-September 27, 2003 | 267 | $27 | 102 | $10 | $1,861 | $2,380 |

See accompanying notes



TYSON FOOD, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three years ended September 27, 2003
in millions

| Treasury Stock | | Unamortized Deferred Compensation | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|
| Shares | Amount | | | |

| | | | | | |
|---|---|---|---|---|---|
| Balance-September 30, 2000 | 16 | $(284) | $(10) | $(5) | $2,175 |
| Comprehensive Income: | | | | | |
| Net income | | | | | 88 |
| Other comprehensive income (loss) net of tax of $(11) million | | | | | |
| Cumulative effect of SFAS 133 adoption (net of $(3) million tax) | | | | (6) | (6) |
| Derivative loss recognized in cost of sales (net of $(3) million tax) | | | | (5) | (5) |
| Derivative unrealized loss (net of $(6) million tax) | | | | (10) | (10) |
| Unrealized gain on investments (net of $1 million tax) | | | | 2 | 2 |
| Currency translation adjustment | | | | (11) | (11) |
| Total Comprehensive income | | | | | 58 |
| Purchase of Treasury Shares | 5 | (48) | | | (48) |
| Restricted Shares Cancelled | | (1) | | | (1) |
| Shares Issued in IBP Acquisition | | | | | 1,198 |
| Dividends Paid | | | | | (33) |
| Amortization of Deferred Compensation | | | 5 | | 5 |
| Balance-September 29, 2001 | 21 | (333) | (5) | (35) | 3,354 |
| Comprehensive Income: | | | | | |
| Net income | | | | | 383 |
| Other comprehensive income (loss) net of tax of $(5) million | | | | | |
| Derivative gain recognized in cost of sales (net of $2 million tax) | | | | 5 | 5 |
| Derivative unrealized loss (net of $(1) million tax) | | | | (2) | (2) |
| Unrealized loss on investments (net of $(1) million tax) | | | | (2) | (2) |

| | | | | | |
|---|---|---|---|---|---|
| Currency translation adjustment | | | | (7) | (7) |
| Additional pension liability (net of $(5) million tax | | | | (8) | (8) |
| Total Comprehensive income | | | | | 369 |
| Purchase of Treasury Shares | 1 | (19) | | | (19) |
| Restricted Shares Issued | (6) | 90 | (50) | | (1) |
| Restricted Shares Cancelled | | (3) | 3 | | 2 |
| Dividends Paid | | | | | (56) |
| Amortization of Deferred Compensation | | | 15 | | 15 |
| Other | | | | | (2) |
| Balance-September 28, 2002 | 16 | (265) | (37) | (49) | 3,662 |
| Comprehensive Income: | | | | | |
| Net income | | | | | 337 |
| Other comprehensive income (loss) net of tax of $8 million | | | | | |
| Derivative loss recognized in cost of sales (net of $(1) million tax) | | | | (2) | (2) |
| Derivative unrealized gain (net of $7 million tax) | | | | 11 | 11 |
| Unrealized gain on investments (net of $1 million tax) | | | | 1 | 1 |
| Currency translation adjustment | | | | 21 | 21 |
| Additional pension liability (net of $2 million tax) | | | | 3 | 3 |
| Total Comprehensive income | | | | | 371 |
| Purchase of Treasury Shares | 4 | (41) | | | (41) |
| Restricted Shares Issued | (4) | 55 | (37) | | (1) |
| Restricted Shares Cancelled | | (1) | 1 | | 1 |
| Dividends Paid | | | | | (54) |
| Amortization of Deferred Compensation | | | 16 | | 16 |

| | | | | | |
|---|---|---|---|---|---|
| Balance-September 27, 2003 | 16 | $(252) | $(57) | $(15) | $3,954 |
| See accompanying notes | | | | | |



TYSON FOODS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three years ended September 27, 2003 in millions | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Cash Flows From Operating Activities: | | | |
| Net income | $ 337 | $ 383 | $ 88 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation | 427 | 431 | 294 |
| Amortization | 31 | 36 | 41 |
| Plant closing related charges | 22 | - | - |
| Write-down of intangible asset | - | 27 | - |
| Gain on sale of subsidiary | - | (22) | - |
| Deferred taxes | 113 | 22 | (47) |
| Other | 36 | 20 | 21 |
| (Increase) decrease in accounts receivable | (179) | 44 | (45) |
| Increase in inventories | (78) | (4) | (15) |
| Increase (decrease) in trade accounts payable | 60 | (30) | 89 |
| Net change in other current assets and liabilities | 51 | 267 | 85 |
| Cash Provided by Operating Activities | 820 | 1,174 | 511 |
| Cash Flows From Investing Activities: | | | |
| Additions to property, plant and equipment | (402) | (433) | (261) |
| Proceeds from sale of assets | 30 | 14 | 33 |
| Proceeds from sale of subsidiary | - | 131 | - |
| Net cash paid for IBP acquisition | - | - | (1,670) |
| Acquisitions of property, plant and equipment | - | (73) | (33) |
| Purchase of Tyson de Mexico minority interest | - | - | (19) |
| Net change in investment in commercial paper | 4 | 94 | (23) |
| Net change in other assets and liabilities | 7 | (61) | (45) |
| Cash Used for Investing Activities | (361) | (328) | (2,018) |
| Cash Flows From Financing Activities: | | | |