TYSON FOODS INC
Form 10-Q
February 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended January 2, 2016
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
001-14704
(Commission File Number)

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

Delaware	71-0225165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 West Don Tyson Parkway, Springdale, Arkansas	72762-6999
(Address of principal executive offices)	(Zip Code)

(479) 290-4000
(Registrant's telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 2, 2016.

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	293,093,548
Class B Common Stock, $0.10 Par Value (Class B stock)	70,010,805

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PART I. FINANCIAL INFORMATION

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Sales	$9,152	$10,817
Cost of Sales	7,951	9,861
Gross Profit	1,201	956
Selling, General and Administrative	425	447
Operating Income	776	509
Other (Income) Expense:		
Interest income	(2)	(2)
Interest expense	67	77
Other, net	(1)	(1)
Total Other (Income) Expense	64	74
Income before Income Taxes	712	435
Income Tax Expense	251	125
Net Income	461	310
Less: Net Income Attributable to Noncontrolling Interests	—	1
Net Income Attributable to Tyson	$461	$309
Weighted Average Shares Outstanding:		
Class A Basic	325	336
Class B Basic	70	70
Diluted	400	416
Net Income Per Share Attributable to Tyson:		
Class A Basic	$1.18	$0.77
Class B Basic	$1.09	$0.71
Diluted	$1.15	$0.74
Dividends Declared Per Share:		
Class A	$0.200	$0.125
Class B	$0.180	$0.113

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Net Income	$461	$310
Other Comprehensive Income (Loss), Net of Taxes:		
Derivatives accounted for as cash flow hedges	—	1
Investments	(1)	9
Currency translation	(5)	6
Postretirement benefits	(2)	7
Total Other Comprehensive Income (Loss), Net of Taxes	(8)	23
Comprehensive Income	453	333
Less: Comprehensive Income Attributable to Noncontrolling Interests	—	1
Comprehensive Income Attributable to Tyson	$453	$332

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	January 2, 2016	October 3, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$1,187	$688
Accounts receivable, net	1,514	1,620
Inventories	2,818	2,878
Other current assets	158	195
Total Current Assets	5,677	5,381
Net Property, Plant and Equipment	5,184	5,176
Goodwill	6,669	6,667
Intangible Assets, net	5,145	5,168
Other Assets	615	612
Total Assets	$23,290	$23,004
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	$717	$715
Accounts payable	1,781	1,662
Other current liabilities	1,170	1,158
Total Current Liabilities	3,668	3,535
Long-Term Debt	5,988	6,010
Deferred Income Taxes	2,514	2,449
Other Liabilities	1,343	1,304
Commitments and Contingencies (Note 16)		
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 346 million shares	35	35
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	4,293	4,307
Retained earnings	7,203	6,813
Accumulated other comprehensive loss	(98)	(90)
Treasury stock, at cost – 53 million shares at January 2, 2016, and 47 million shares at October 3, 2015	(1,678)	(1,381)
Total Tyson Shareholders' Equity	9,762	9,691
Noncontrolling Interests	15	15
Total Shareholders' Equity	9,777	9,706
Total Liabilities and Shareholders' Equity	$23,290	$23,004

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Cash Flows From Operating Activities:		
Net income	$461	$310
Depreciation and amortization	172	175
Deferred income taxes	69	11
Other, net	(1)	6
Net changes in operating assets and liabilities	394	310
Cash Provided by Operating Activities	1,095	812
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(188)	(231)
Purchases of marketable securities	(12)	(10)
Proceeds from sale of marketable securities	10	7
Proceeds from sale of businesses	—	142
Other, net	(1)	3
Cash Used for Investing Activities	(191)	(89)
Cash Flows From Financing Activities:		
Payments on debt	(20)	(668)
Purchases of Tyson Class A common stock	(387)	(91)
Dividends	(54)	(37)
Stock options exercised	34	16
Other, net	23	5
Cash Used for Financing Activities	(404)	(775)
Effect of Exchange Rate Changes on Cash	(1)	(5)
Increase (Decrease) in Cash and Cash Equivalents	499	(57)
Cash and Cash Equivalents at Beginning of Year	688	438
Cash and Cash Equivalents at End of Period	$1,187	$381

See accompanying Notes to Consolidated Condensed Financial Statements.

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

NOTE 1: ACCOUNTING POLICIES

Basis of Presentation

The consolidated condensed financial statements are unaudited and have been prepared by Tyson Foods, Inc. (“Tyson,” “the Company,” “we,” “us” or “our”). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations of the United States Securities and Exchange Commission. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended October 3, 2015. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of January 2, 2016, and the results of operations for the three months ended January 2, 2016, and December 27, 2014. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

Consolidation

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

Recently Issued Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued guidance that requires most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements on the classification and measurement of financial instruments. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes. The new guidance requires that deferred tax liabilities and assets be classified as non-current in the balance sheet. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In July 2015, the FASB issued guidance which requires management to evaluate inventory at the lower of cost and net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted and the prospective transition method should be applied. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In April 2015, the FASB issued guidance on the recognition of fees paid by a customer for cloud computing arrangements. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the software license consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015, our fiscal 2017. The Company is currently evaluating the impact this

guidance will have on our consolidated financial statements.

In April 2015, the FASB issued guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015, our fiscal 2017. Early adoption is permitted. This new guidance is not expected to have a material impact on our consolidated financial statements.

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In February 2015, the FASB issued guidance changing the analysis procedures that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The new guidance affects the following areas: (1) limited partnerships and similar legal entities, (2) evaluating fees paid to a decision maker or a service provider as a variable interest, (3) the effect of fee arrangements on the primary beneficiary determination, (4) the effect of related parties on the primary beneficiary determination, and (5) certain investment funds. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods, beginning after December 15, 2015, our fiscal 2017. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue. The guidance provides for a single five-step model to be applied to all revenue contracts with customers. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

NOTE 2: DISPOSITIONS

In fiscal 2015, we sold the Brazil and Mexico chicken production operations, which were included in Other within our segment reporting, to JBS SA ("JBS") for a combined $575 million in cash, which was subject to certain adjustments. We completed the sale of the Brazil operation in the first quarter of fiscal 2015 and received net proceeds of $148 million including working capital, net debt adjustments and cash transferred. The sale did not result in a significant gain or loss as the carrying value of the Brazil operation approximated the sales proceeds at the time of sale.

We completed the sale of the Mexico operation in the fourth quarter of fiscal 2015 and received net proceeds of approximately $374 million including working capital, net debt adjustments and cash transferred. As a result of the sale, we recorded a pre-tax gain of
$161 million, in the fourth quarter of fiscal 2015, which was reflected in Cost of Sales in our Consolidated Condensed Statements of Income.

To better align our overall production capacity with current cattle supplies, we ceased beef operations at our Denison, Iowa plant in fiscal 2015. As a result, we recorded $12 million in closure and impairment charges during the fourth quarter of fiscal 2015. These charges impacted the Beef segment’s operating income and were reflected in Cost of Sales in our Consolidated Condensed Statements of Income.

In the fourth quarter of fiscal 2015, we recorded a $59 million impairment and other related charges associated with a Prepared Foods project designed to optimize the combined Tyson and Hillshire Brands network capacity and to enhance manufacturing efficiencies for the future. As a result of this project, we expect to close our Chicago, Illinois hospitality plant and our Jefferson, Wisconsin plant in the back half of fiscal 2016. These charges were reflected in the Prepared Foods segment’s operating income in the fourth quarter of fiscal 2015, of which $49 million was included in the Consolidated Condensed Statements of Income in Cost of Sales and $10 million was included in the Consolidated Condensed Statements of Income in Selling, General and Administrative.

Additionally, in the third quarter of fiscal 2015, as part of our ongoing efforts to increase efficiencies in our Chicken business, we closed our Buena Vista, Georgia plant. The closure costs did not have a significant impact on the Company's operating results.

NOTE 3: INVENTORIES

Processed products, livestock and supplies and other are valued at the lower of cost or market. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories.

At January 2, 2016, 61% of the cost of inventories was determined by the first-in, first-out ("FIFO") method as compared to 63% at October 3, 2015. The remaining cost of inventories for both years is determined by the weighted-average method.

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

	January 2, 2016	October 3, 2015
Processed products	$1,501	$1,631
Livestock	905	831
Supplies and other	412	416
Total inventory	$2,818	$2,878

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NOTE 4: PROPERTY, PLANT AND EQUIPMENT

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

	January 2, 2016	October 3, 2015
Land	$125	$122
Buildings and leasehold improvements	3,599	3,581
Machinery and equipment	6,575	6,452
Land improvements and other	287	286
Buildings and equipment under construction	355	375
	10,941	10,816
Less accumulated depreciation	5,757	5,640
Net property, plant and equipment	$5,184	$5,176

NOTE 5: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	January 2, 2016	October 3, 2015
Accrued salaries, wages and benefits	$354	$478
Accrued marketing, advertising and promotion expense	204	192
Other	612	488
Total other current liabilities	$1,170	$1,158

NOTE 6: DEBT

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

	January 2, 2016	October 3, 2015
Revolving credit facility	$—	$—
Senior notes:		
6.60% Senior notes due April 2016	638	638
7.00% Notes due May 2018	120	120
2.65% Notes due August 2019	1,000	1,000
4.10% Notes due September 2020	285	285
4.50% Senior notes due June 2022	1,000	1,000
3.95% Notes due August 2024	1,250	1,250
7.00% Notes due January 2028	18	18
6.13% Notes due November 2032	163	163
4.88% Notes due August 2034	500	500
5.15% Notes due August 2044	500	500
Discount on senior notes	(9)	(10)
Term loans:		
3-year tranche B (1.44% at 1/2/2016)	500	500
5-year tranche B (1.88% at 1/2/2016)	552	552
Amortizing notes - tangible equity units (see Note 7: Equity)	123	140
Other	65	69
Total debt	6,705	6,725
Less current debt	717	715
Total long-term debt	$5,988	$6,010

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Revolving Credit Facility

We have a $1.25 billion revolving credit facility that supports short-term funding needs and letters of credit. The facility will mature and the commitments thereunder will terminate in September 2019. After reducing for the amount borrowed and outstanding letters of credit issued under this facility, the amount available for borrowing at January 2, 2016, was $1,244 million. At January 2, 2016, we had outstanding letters of credit issued under this facility totaling $6 million, none of which were drawn upon. We had an additional $93 million of bilateral letters of credit issued separately from the revolving credit facility, none of which were drawn upon. Our letters of credit are issued primarily in support of leasing obligations and workers' compensation insurance programs.

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

Debt Covenants

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

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

We were in compliance with all debt covenants at January 2, 2016.

NOTE 7: EQUITY

Share Repurchases

As of January 2, 2016, 13.5 million shares remained available for repurchases under our share repurchase program. On February 4, 2016, our Board of Directors approved an increase of 50 million shares authorized for repurchase under our share repurchase program. The share repurchase program has no fixed or scheduled termination date and the timing and extent to which we repurchase shares will depend upon, among other things, our working capital needs, markets, industry conditions, liquidity targets, limitations under our debt obligations and regulatory requirements. In addition to the share repurchase program, we purchase shares on the open market to fund certain obligations under our equity compensation plans.

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

	Three Months Ended			
	January 2, 2016		December 27, 2014	
	Shares	Dollars	Shares	Dollars
Shares repurchased:				
Under share repurchase program	7.6	$357	2.0	$81
To fund certain obligations under equity compensation plans	0.7	30	0.2	10
Total share repurchases	8.3	$387	2.2	$91

Subsequent to January 2, 2016, through February 4, 2016, we repurchased $221 million, or approximately 4.3 million shares, of our common stock under our share repurchase program.

Tangible Equity Units

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

was $205 million, was recorded in debt. Issuance costs associated with the TEU debt were recorded as deferred financing costs in the Consolidated Condensed Balance Sheets in Other Assets and are amortized over the term of the instrument to July 15, 2017.

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

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

Each senior amortizing note has an initial principal amount of $6.83 and bears interest at 1.5% per annum. On each January 15, April 15, July 15 and October 15, we will pay equal quarterly cash installments of $0.59 per amortizing note, which cash payment in the aggregate (principal and interest) is equivalent to 4.75% per year with respect to the $50 stated amount per TEU. Each installment constitutes a payment of interest and partial repayment of principal.

Unless settled earlier at the holder's or the Company's option, each purchase contract will automatically settle on July 15, 2017, subject to postponement in certain limited circumstances. We will deliver between a minimum of 31.9 million shares and a maximum of 39.8 million shares of our Class A stock, subject to adjustment, based upon the Applicable Market Value (as defined below) of our Class A stock as described below:

- If the Applicable Market Value is equal to or greater than the conversion price of $47.06 per share, we will deliver 1.0624 shares of Class A stock per purchase contract, or a minimum of 31.9 million Class A shares.
- If the Applicable Market Value is greater than the reference price of $37.65 but less than the conversion price of $47.06 per share, we will deliver a number of shares per purchase contract equal to $50, divided by the Applicable Market Value.
- If the Applicable Market Value is less than or equal to the reference price of $37.65 per share, we will deliver 1.3282 shares of Class A stock per purchase contract, or a maximum of 39.8 million Class A shares.

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

On December 15, 2015, we paid our quarterly dividend to shareholders of record at December 1, 2015, equal to $0.15 per share on our Class A stock. The amount of the distribution exceeded the $0.075 per share dividend threshold amount. Consequently, the settlement rates, reference price and conversion price were adjusted and are reflected above.

The TEUs have a dilutive effect on our earnings per share. The 31.9 million minimum shares to be issued are included in the calculation of Class A Basic weighted average shares. The approximate 8 million share difference between the minimum shares and the 39.8 million maximum shares are potentially dilutive securities, and accordingly, are included in our diluted earnings per share on a pro rata basis to the extent the Applicable Market Value is higher than the reference price but is less than the conversion price at period end.

NOTE 8: INCOME TAXES

The effective tax rate was 35.2% and 28.8% for the first quarter of fiscal 2016 and 2015, respectively. The effective tax rates for the first quarter of fiscal 2016 and fiscal 2015 were impacted by such items as the domestic production deduction, state income taxes and losses in foreign jurisdictions for which no benefit is recognized. In addition, the first quarter of fiscal 2015 was impacted by changes in tax reserves resulting from the expiration of statutes of limitations, which reduced the effective tax rate by 6.5%.

Unrecognized tax benefits were $304 million and $306 million at January 2, 2016, and October 3, 2015, respectively. We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease by as much as $15 million primarily due to expiration of statutes of limitations in various jurisdictions.

NOTE 9: OTHER INCOME AND CHARGES

During the first quarter of fiscal 2016, we recorded $2 million of equity earnings in joint ventures and $1 million in net foreign currency exchange losses, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

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

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NOTE 10: EARNINGS PER SHARE

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Numerator:		
Net income	$461	$310
Less: Net income attributable to noncontrolling interests	—	1
Net income attributable to Tyson	461	309
Less dividends declared:		
Class A	58	38
Class B	13	8
Undistributed earnings	$390	$263
Class A undistributed earnings	$327	$221
Class B undistributed earnings	63	42
Total undistributed earnings	$390	$263
Denominator:		
Denominator for basic earnings per share:		
Class A weighted average shares	325	336
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70
Effect of dilutive securities:		
Stock options, restricted stock and performance units	5	5
Tangible equity units	—	5
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	400	416
Net income per share attributable to Tyson:		
Class A basic	$1.18	$0.77
Class B basic	$1.09	$0.71
Diluted	$1.15	$0.74

Approximately 2 million and 6 million of our stock-based compensation shares were antidilutive for the three months ended January 2, 2016, and December 27, 2014, respectively. These shares were not included in the diluted earnings per share calculation.

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

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

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NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

Our business operations give rise to certain market risk exposures mostly due to changes in commodity prices, foreign currency exchange rates and interest rates. We manage a portion of these risks through the use of derivative financial instruments to reduce our exposure to commodity price risk, foreign currency risk and interest rate risk. Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored, using value-at-risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit-worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at January 2, 2016.

We had the following aggregated outstanding notional amounts related to our derivative financial instruments (in millions, except soy meal tons):

	Metric	January 2, 2016	October 3, 2015
Commodity:			
Corn	Bushels	37	18
Soy meal	Tons	392,300	284,900
Live cattle	Pounds	106	102
Lean hogs	Pounds	87	166
Foreign currency	United States dollar	$27	$42

We recognize all derivative instruments as either assets or liabilities at fair value in the Consolidated Condensed Balance Sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument based upon the exposure being hedged (i.e., cash flow hedge or fair value hedge). We designate certain forward contracts as follows:

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

Cash Flow Hedges

Derivative instruments are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three months ended January 2, 2016, and December 27, 2014. As of January 2, 2016, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $2 million. During the three months ended January 2, 2016, and December 27, 2014, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges.

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

	Gain (Loss) Recognized in OCI On Derivatives Three Months Ended		Consolidated Condensed Statements of Income Classification	Gain (Loss) Reclassified from OCI to Earnings Three Months Ended	
	January 2, 2016	December 27, 2014		January 2, 2016	December 27, 2014

Cash flow hedge – derivatives designated as hedging instruments:					
Commodity contracts	$(2)	$—	Cost of sales	$(1)	$(3)
Foreign exchange contracts	—	—	Other income/expense	—	—
Total	$(2)	$—		$(1)	$(3)

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Fair Value Hedges

We designate certain derivative contracts as fair value hedges of firm commitments to purchase livestock for slaughter. Our objective of these hedges is to minimize the risk of changes in fair value created by fluctuations in commodity prices associated with fixed price livestock firm commitments. For these derivative instruments we designate and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in earnings in the same period. We include the gain or loss on the hedged items (i.e., livestock purchase firm commitments) in the same line item, Cost of Sales, as the offsetting gain or loss on the related livestock forward position.

		in millions	
	Consolidated Condensed	Three Months Ended	
	Statements of Income Classification	January 2, 2016	December 27, 2014
Gain (Loss) on forwards	Cost of sales	$33	$(40)
Gain (Loss) on purchase contract	Cost of sales	(33)	40

Ineffectiveness related to our fair value hedges was not significant for the three months ended January 2, 2016, and December 27, 2014.

Undesignated Positions

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

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

	Consolidated Condensed Statements of Income Classification	Gain (Loss) Recognized in Earnings	
		Three Months Ended	
		January 2, 2016	December 27, 2014
Derivatives not designated as hedging instruments:			
Commodity contracts	Sales	$9	$(1)
Commodity contracts	Cost of sales	(15)	(26)
Foreign exchange contracts	Other income/expense	—	(2)
Total		$(6)	$(29)

The fair value of all outstanding derivative instruments in the Consolidated Condensed Balance Sheets are included in Note 12: Fair Value Measurements.

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

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

January 2, 2016	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$—	$21	$—	$(5)	$16
Undesignated	—	19	—	(13)	6
Available-for-sale securities:					
Current	—	1	1	—	2
Non-current	—	36	58	—	94
Deferred compensation assets	8	226	—	—	234
Total assets	$8	$303	$59	$(18)	$352
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$—	$9	$—	$(9)	$—
Undesignated	—	43	—	(38)	5
Total liabilities	$—	$52	$—	$(47)	$5

October 3, 2015	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$—	$52	$—	$(35)	$17
Undesignated	—	9	—	(9)	—
Available-for-sale securities:					
Current	—	1	1	—	2
Non-current	—	33	60	—	93
Deferred compensation assets	9	222	—	—	231
Total assets	$9	$317	$61	$(44)	$343
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$—	$2	$—	$(2)	$—
Undesignated	—	49	—	(47)	2
Total liabilities	$—	$51	$—	$(49)	$2

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At January 2, 2016, and October 3, 2015, we had posted with various counterparties $29 million and $5 million, respectively, of cash collateral related to our commodity derivatives and held no cash collateral.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Balance at beginning of year	$61	$67
Total realized and unrealized gains (losses):		
Included in earnings	—	—
Included in other comprehensive income (loss)	—	—
Purchases	4	4
Issuances	—	—
Settlements	(6)	(6)
Balance at end of period	$59	$65
Total gains (losses) for the three-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period	$—	$—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Derivative Assets and Liabilities: Our derivative financial instruments primarily include exchange-traded and over-the-counter contracts which are further described in Note 11: Derivative Financial Instruments. We record our derivative financial instruments at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward market prices. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges or observable market transactions.
Available-for-Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Condensed Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Condensed Balance Sheets and have maturities ranging up to 35 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated condensed financial statements.
The following table sets forth our available-for-sale securities' amortized cost basis, fair value and unrealized gain (loss) by significant investment category (in millions):

	January 2, 2016			October 3, 2015		
	Amortized Cost Basis	Fair Value	Unrealized Gain (Loss)	Amortized Cost Basis	Fair Value	Unrealized Gain (Loss)
Available-for-sale securities:						
Debt securities:						
U.S. treasury and agency	$37	$37	$—	$33	$34	$1
Corporate and asset-backed	58	59	1	60	61	1

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Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized no other than temporary impairment in earnings for the three months ended January 2, 2016, and December 27, 2014. No other than temporary losses were deferred in OCI as of January 2, 2016, and October 3, 2015.

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We did not have any significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months ended January 2, 2016, and December 27, 2014.

Other Financial Instruments

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

	January 2, 2016		October 3, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total debt	$6,851	$6,705	$6,900	$6,725

NOTE 13: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of the net periodic cost for the pension and postretirement benefit plans for the three months ended January 2, 2016, and December 27, 2014, are as follows (in millions):

	Pension Plans	
	Three Months Ended	
	January 2, 2016	December 27, 2014
Service cost	$4	$4
Interest cost	20	21
Expected return on plan assets	(17)	(25)
Amortization of:		
Net actuarial loss	1	1
Settlement (gain) loss (a)	(12)	8
Net periodic cost (credit)	$(4)	$9

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	Postretirement Benefit Plans	
	Three Months Ended	
	January 2, 2016	December 27, 2014
Service cost	$—	$1
Interest cost	1	2
Amortization of:		
Prior service credit	(4)	—
Net periodic cost (credit)	$(3)	$3

(a) We made lump-sum settlement payments using plan assets, of $265 million and $18 million during the first quarter of fiscal 2016 and 2015, respectively, to certain deferred vested participants within our qualified pension plans.

We contributed $32 million and $3 million to our pension plans for the three months ended January 2, 2016, and December 27, 2014, respectively. We expect to contribute an additional $31 million during the remainder of fiscal 2016. The amount of contributions made to pension plans in any year is dependent upon a number of factors including minimum funding requirements in the jurisdictions in which we operate. As a result, the actual funding in fiscal 2016 may differ from the current estimate.

NOTE 14: OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended					
	January 2, 2016			December 27, 2014		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Derivatives accounted for as cash flow hedges:						
(Gain) loss reclassified to cost of sales	$1	$—	$1	$3	$(2)	$1
Unrealized gain (loss)	(2)	1	(1)	—	—	—
Investments:						
(Gain) loss reclassified to other income/expense	—	—	—	—	—	—
Unrealized gain (loss)	(1)	—	(1)	15	(6)	9
Currency translation:						
Translation loss reclassified to cost of sales (a)	—	—	—	37	(1)	36
Translation adjustment	(5)	—	(5)	(37)	7	(30)
Postretirement benefits	(3)	1	(2)	9	(2)	7
Total other comprehensive income (loss)	$(10)	$2	$(8)	$27	$(4)	$23

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

NOTE 15: SEGMENT REPORTING

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

Following the sale of our Mexico and Brazil chicken production operations in fiscal 2015 (see Note 2: Dispositions), we began reporting our international operation, which was previously reported as the International segment, in Other. Other now includes our foreign chicken production operations in China and India and third-party merger and integration costs. All periods presented have been reclassified to reflect this change. Chicken, Beef, Pork and Prepared Foods results were not impacted by this change.

Chicken: Chicken includes our domestic operations related to raising and processing live chickens into fresh, frozen and value-added chicken products, as well as sales from allied products. Products are marketed domestically to food

retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets. This segment also includes logistics operations to move products through our domestic supply chain and the global operations of our chicken breeding stock subsidiary.

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

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

Prepared Foods: Prepared Foods includes our operations related to manufacturing and marketing frozen and refrigerated food products and logistics operations to move products through the supply chain. This segment includes brands such as Jimmy Dean®, Ball Park®, Hillshire Farm®, State Fair®, Van's®, Sara Lee® and Chef Pierre® pies, as well as artisanal brands Aidells®, Gallo Salame®, and Golden Island® premium jerky. Products primarily include pepperoni, bacon, breakfast sausage, turkey, lunchmeat, hot dogs, pizza crusts and toppings, flour and corn tortilla products, desserts, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes, breadsticks and processed meats. Products are marketed domestically to food retailers, foodservice distributors, restaurant operators, hotel chains and noncommercial foodservice establishments such as schools, healthcare facilities, the military and other food processors, as well as to international export markets.

We allocate expenses related to corporate activities to the segments, except for third-party merger and integration costs which are included in Other.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Sales:		
Chicken	$2,636	$2,780
Beef	3,614	4,391
Pork	1,213	1,540
Prepared Foods	1,896	2,133
Other	99	305
Intersegment sales	(306)	(332)
Total sales	$9,152	$10,817
Operating income (loss):		
Chicken	$358	$351
Beef	71	(6)
Pork	158	122
Prepared Foods	207	71 (a)
Other	(18) (b)	(29) (b)
Total operating income	776	509
Total other (income) expense	64	74
Income before income taxes	$712	$435

(a) Includes merger and integration costs of $4 million and costs related to a legacy Hillshire Brands plant fire of $36 million for the three months ended December 27, 2014.

(b) Operating income in Other includes third-party merger and integration costs of $5 million and $15 million for the three months ended January 2, 2016, and December 27, 2014, respectively.

The Chicken segment had sales of $3 million and $1 million in the first quarter of fiscal 2016 and 2015, respectively, from transactions with other operating segments of the Company. The Beef segment had sales of $72 million and $78 million in the first quarter of fiscal 2016 and 2015, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of $231 million and $253 million in the first quarter of fiscal 2016 and 2015, respectively, from transactions with other operating segments of the Company. The aforementioned sales from intersegment transactions, which were at market prices, were included in the segment sales in the above table.

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NOTE 16: COMMITMENTS AND CONTINGENCIES

Commitments

We guarantee obligations of certain outside third parties, consisting primarily of leases, debt and grower loans, which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to 10 years, and the maximum potential amount of future payments as of January 2, 2016, was $40 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The remaining terms of the lease maturities cover periods over the next 12 years. The maximum potential amount of the residual value guarantees is $95 million, of which $88 million could be recoverable through various recourse provisions and an additional undeterminable recoverable amount based on the fair value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At January 2, 2016, and October 3, 2015, no material liabilities for guarantees were recorded.

We have cash flow assistance programs in which certain livestock suppliers participate. Under these programs, we pay an amount for livestock equivalent to a standard cost to grow such livestock during periods of low market sales prices. The amounts of such payments that are in excess of the market sales price are recorded as receivables and accrue interest. Participating suppliers are obligated to repay these receivables balances when market sales prices exceed this standard cost, or upon termination of the agreement. Our maximum obligation associated with these programs is limited to the fair value of each participating livestock supplier’s net tangible assets. The potential maximum obligation as of January 2, 2016, was approximately $310 million. The total receivables under these programs were $3 million at January 2, 2016. There were no receivables under these programs at October 3, 2015. These receivables are included, net of allowance for uncollectible amounts, in Accounts Receivable in our Consolidated Condensed Balance Sheets. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers’ assets. After analyzing residual credit risks and general market conditions, we have no allowance for these programs’ estimated uncollectible receivables at January 2, 2016, and October 3, 2015.

When constructing new facilities or making major enhancements to existing facilities, we will occasionally enter into incentive agreements with local government agencies in order to reduce certain state and local tax expenditures. Under these agreements, we transfer the related assets to various local government entities and receive Industrial Revenue Bonds. We immediately lease the facilities from the local government entities and have an option to re-purchase the facilities for a nominal amount upon tendering the Industrial Revenue Bonds to the local government entities at various predetermined dates. The Industrial Revenue Bonds and the associated obligations for the leases of the facilities offset, and the underlying assets remain in property, plant and equipment. At January 2, 2016, total amounts under these type of arrangements totaled $574 million.

Contingencies

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

Below are the details of five lawsuits involving our beef, pork and prepared foods plants in which certain present and past employees allege that we failed to compensate them for the time it takes to engage in pre- and post-shift activities, such as changing into and out of protective and sanitary clothing and walking to and from the changing area, work areas and break areas in violation of the Fair Labor Standards Act and various state laws. The plaintiffs

seek back wages, liquidated damages, pre- and post-judgment interest, attorneys' fees and costs. Each case is proceeding in its jurisdiction.

- Bouaphakeo (f/k/a Sharp), et al. v. Tyson Foods, Inc., N.D. Iowa, February 6, 2007 - A jury trial was held involving our Storm Lake, Iowa pork plant which resulted in a jury verdict in favor of the plaintiffs for violations of federal and state laws for pre- and post-shift work activities. The trial court also awarded the plaintiffs liquidated damages, resulting in total damages awarded in the amount of $5,784,758. The plaintiffs' counsel has also filed an application for attorneys' fees and expenses in the amount of $2,692,145. We appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals. The appellate court affirmed the jury verdict and judgment on August 25, 2014, and we filed a petition for rehearing on September 22, 2014, which was denied. We filed a petition for a writ of certiorari with the United States Supreme Court, which was granted on June 8, 2015. Oral arguments before the Supreme Court occurred on November 10, 2015.
- Edwards, et al. v. Tyson Foods, Inc. d.b.a. Tyson Fresh Meats, Inc., S.D. Iowa, March 20, 2008 - The trial court in this case, which involves our Perry and Waterloo, Iowa pork plants, decertified the state law class and granted other pre-trial motions that resulted in judgment in our favor with respect to the plaintiffs' claims. The plaintiffs have filed a motion to modify this judgment.

- Murray, et al. v. Tyson Foods, Inc., C.D. Illinois, January 2, 2008; and DeVoss v. Tyson Foods, Inc. d.b.a. Tyson Fresh Meats, C.D. Illinois, March 2, 2011 - these cases involve our Joslin, Illinois beef plant and are in their preliminary stages.
- Dozier, Southerland, et al. v. The Hillshire Brands Company, E.D. North Carolina, September 2, 2014 - This case involves our Tarboro, North Carolina prepared foods plant and is in its preliminary stages.
- Awad, et al. v. Tyson Foods, Inc. and Tyson Fresh Meats, Inc., M.D. Tennessee, February 12, 2015 - This case involves our Goodlettsville, Tennessee case ready beef plant and is in its preliminary stages.

Our subsidiary, The Hillshire Brands Company (formerly named Sara Lee Corporation), is a party to a consolidation of cases filed by individual complainants with the Republic of the Philippines, Department of Labor and Employment and the National Labor Relations Commission (NLRC) from 1998 through July 1999. The complaint is filed against Aris Philippines, Inc., Sara Lee Corporation, Sara Lee Philippines, Inc., Fashion Accessories Philippines, Inc., and Attorney Cesar C. Cruz (collectively, the “respondents”). The complaint alleges, among other things, that the respondents engaged in unfair labor practices in connection with the termination of manufacturing operations in the Philippines by Aris Philippines, Inc., a former subsidiary of The Hillshire Brands Company. In 2006, an arbitrator ruled against the respondents and awarded the complainants PHP3,453,664,710 (approximately US$74 million) in damages and fees. The respondents appealed the arbitrator’s ruling, and it was subsequently set aside by the NLRC in December 2006. Subsequent to the NLRC’s decision, the parties filed numerous appeals, motions for reconsideration and petitions for review, certain of which remained outstanding for several years. While various of those appeals, motions and/or petitions were pending, The Hillshire Brands Company, on June 23, 2014, without admitting liability, filed a settlement motion requesting that the Supreme Court of the Philippines order dismissal with prejudice of all claims against it and its predecessors-in-interest in exchange for payments allocated by the court among the complainants in an amount not to exceed PHP342,287,800 (approximately US$7 million). Based in part on its finding that the consideration to be paid to the complainants as part of such settlement was insufficient, the Supreme Court of the Philippines denied the respondents’ motion for reconsideration and the settlement motion. The Supreme Court of the Philippines also set aside as premature the NLRC’s December 2006 ruling, and the cases are now back before the NLRC, which will once again rule on the respondents’ appeals regarding the arbitrator’s 2006 ruling in favor of the complainants. In the meantime, the respondents believe they have reached a settlement in principle with a group comprising approximately 23% of the class of 5,984 complainants, pursuant to which The Hillshire Brands Company would pay each settling complainant PHP68,000 (approximately US$1,448). The respondents are in the process of seeking NLRC approval of such settlement.

NOTE 17: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

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Condensed Consolidating Statement of Income and Comprehensive Income for the three months ended January 2, 2016 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$221	$4,833	$4,653	$(555)	$9,152
Cost of Sales	8	4,536	3,960	(553)	7,951
Gross Profit	213	297	693	(2)	1,201
Selling, General and Administrative	25	66	336	(2)	425
Operating Income	188	231	357	—	776
Other (Income) Expense:					
Interest expense, net	61	—	4	—	65
Other, net	—	(1)	—	—	(1)
Equity in net earnings of subsidiaries	(383)	(33)	—	416	—
Total Other (Income) Expense	(322)	(34)	4	416	64
Income (Loss) before Income Taxes	510	265	353	(416)	712
Income Tax (Benefit) Expense	49	83	119	—	251
Net Income	461	182	234	(416)	461
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	—	—	—
Net Income Attributable to Tyson	$461	$182	$234	$(416)	$461
Comprehensive Income (Loss)	453	177	223	(400)	453
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	—	—	—
Comprehensive Income (Loss) Attributable to Tyson	$453	$177	$223	$(400)	$453

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

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

Comprehensive Income (Loss)	332	104	186	(289	) 333
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	1	—	1
Comprehensive Income (Loss) Attributable to Tyson	$332	$104	$185	$(289	) $332

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Condensed Consolidating Balance Sheet as of January 2, 2016 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$15	$1,172	$—	$1,187
Accounts receivable, net	—	514	1,000	—	1,514
Inventories	—	953	1,865	—	2,818
Other current assets	16	66	131	(55)	158
Total Current Assets	16	1,548	4,168	(55)	5,677
Net Property, Plant and Equipment	25	978	4,181	—	5,184
Goodwill	—	881	5,788	—	6,669
Intangible Assets, net	—	9	5,136	—	5,145
Other Assets	118	132	365	—	615
Investment in Subsidiaries	22,213	2,205	—	(24,418)	—
Total Assets	$22,372	$5,753	$19,638	$(24,473)	$23,290
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$707	$1	$17	$(8)	$717
Accounts payable	20	919	842	—	1,781
Other current liabilities	6,187	200	832	(6,049)	1,170
Total Current Liabilities	6,914	1,120	1,691	(6,057)	3,668
Long-Term Debt	5,484	1	503	—	5,988
Deferred Income Taxes	14	106	2,394	—	2,514
Other Liabilities	198	123	1,022	—	1,343
Total Tyson Shareholders' Equity	9,762	4,403	14,013	(18,416)	9,762
Noncontrolling Interest	—	—	15	—	15
Total Shareholders' Equity	9,762	4,403	14,028	(18,416)	9,777
Total Liabilities and Shareholders' Equity	$22,372	$5,753	$19,638	$(24,473)	$23,290

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Condensed Consolidating Balance Sheet as of October 3, 2015 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$12	$676	$—	$688
Accounts receivable, net	—	578	1,042	—	1,620
Inventories	1	1,009	1,868	—	2,878
Other current assets	43	91	147	(86)	195
Total Current Assets	44	1,690	3,733	(86)	5,381
Net Property, Plant and Equipment	26	975	4,175	—	5,176
Goodwill	—	881	5,786	—	6,667
Intangible Assets, net	—	10	5,158	—	5,168
Other Assets	129	146	337	—	612
Investment in Subsidiaries	21,850	2,177	—	(24,027)	—
Total Assets	$22,049	$5,879	$19,189	$(24,113)	$23,004
Liabilities and Shareholders’ Equity					
Current Liabilities:					
Current debt	$710	$1	$22	$(18)	$715
Accounts payable	28	698	936	—	1,662
Other current liabilities	5,930	152	939	(5,863)	1,158
Total Current Liabilities	6,668	851	1,897	(5,881)	3,535
Long-Term Debt	5,498	1	511	—	6,010
Deferred Income Taxes	—	98	2,351	—	2,449
Other Liabilities	192	118	994	—	1,304
Total Tyson Shareholders’ Equity	9,691	4,811	13,421	(18,232)	9,691
Noncontrolling Interest	—	—	15	—	15
Total Shareholders’ Equity	9,691	4,811	13,436	(18,232)	9,706
Total Liabilities and Shareholders’ Equity	$22,049	$5,879	$19,189	$(24,113)	$23,004

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Condensed Consolidating Statement of Cash Flows for the three months ended January 2, 2016 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$174	$622	$299	$—	$1,095
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	—	(33)	(155)	—	(188)
(Purchases of)/Proceeds from marketable securities, net	—	—	(2)	—	(2)
Proceeds from sale of businesses	—	—	—	—	—
Other, net	—	—	(1)	—	(1)
Cash Provided by (Used for) Investing Activities	—	(33)	(158)	—	(191)
Cash Flows from Financing Activities:					
Net change in debt	(19)	—	(1)	—	(20)
Purchases of Tyson Class A common stock	(387)	—	—	—	(387)
Dividends	(54)	—	—	—	(54)
Stock options exercised	34	—	—	—	34
Other, net	23	—	—	—	23
Net change in intercompany balances	229	(586)	357	—	—
Cash Provided by (Used for) Financing Activities	(174)	(586)	356	—	(404)
Effect of Exchange Rate Change on Cash	—	—	(1)	—	(1)
Increase (Decrease) in Cash and Cash Equivalents	—	3	496	—	499
Cash and Cash Equivalents at Beginning of Year	—	12	676	—	688
Cash and Cash Equivalents at End of Period	$—	$15	$1,172	$—	$1,187

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

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$55	$325	$432	$—	$812
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	—	(40)	(191)	—	(231)
(Purchases of)/Proceeds from marketable securities, net	—	—	(3)	—	(3)
Proceeds from sale of businesses	—	—	142	—	142
Other, net	—	—	3	—	3
Cash Provided by (Used for) Investing Activities	—	(40)	(49)	—	(89)
Cash Flows from Financing Activities:					