TYSON FOODS INC
Form 10-Q
January 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 28, 2013
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 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 December 28, 2013.

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	270,275,107
Class B Common Stock, $0.10 Par Value (Class B stock)	70,010,805

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PART I. FINANCIAL INFORMATION

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

	Three Months Ended	
	December 28, 2013	December 29, 2012
Sales	$8,761	$8,366
Cost of Sales	8,076	7,827
Gross Profit	685	539
Selling, General and Administrative	273	235
Operating Income	412	304
Other (Income) Expense:		
Interest income	(2)	(1)
Interest expense	28	37
Other, net	3	—
Total Other (Income) Expense	29	36
Income from Continuing Operations before Income Taxes	383	268
Income Tax Expense	131	96
Income from Continuing Operations	252	172
Loss from Discontinued Operation, Net of Tax	—	(4)
Net Income	252	168
Less: Net Loss Attributable to Noncontrolling Interests	(2)	(5)
Net Income Attributable to Tyson	$254	$173
Amounts Attributable to Tyson:		
Net Income from Continuing Operations	254	177
Net Loss from Discontinued Operation	—	(4)
Net Income Attributable to Tyson	$254	$173
Weighted Average Shares Outstanding:		
Class A Basic	271	285
Class B Basic	70	70
Diluted	354	362
Net Income Per Share from Continuing Operations Attributable to Tyson:		
Class A Basic	$0.76	$0.51
Class B Basic	$0.68	$0.46
Diluted	$0.72	$0.49
Net Loss Per Share from Discontinued Operation Attributable to Tyson:		
Class A Basic	$—	$(0.01)
Class B Basic	$—	$(0.01)
Diluted	$—	$(0.01)
Net Income Per Share Attributable to Tyson:		
Class A Basic	$0.76	$0.50
Class B Basic	$0.68	$0.45
Diluted	$0.72	$0.48
Dividends Declared Per Share:		
Class A	$0.100	$0.160

Class B	$0.090	$0.144

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended December 28, 2013	December 29, 2012
Net Income	$252	$168
Other Comprehensive Income (Loss), Net of Taxes:		
Derivatives accounted for as cash flow hedges	(2)	(9)
Investments	3	(2)
Currency translation	(11)	(1)
Postretirement benefits	2	1
Total Other Comprehensive Income (Loss), Net of Taxes	(8)	(11)
Comprehensive Income	244	157
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	(2)	(5)
Comprehensive Income Attributable to Tyson	$246	$162

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	December 28, 2013	September 28, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$825	$1,145
Accounts receivable, net	1,497	1,497
Inventories	2,778	2,817
Other current assets	130	145
Total Current Assets	5,230	5,604
Net Property, Plant and Equipment	4,072	4,053
Goodwill	1,907	1,902
Intangible Assets	133	138
Other Assets	502	480
Total Assets	$11,844	$12,177
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	$52	$513
Accounts payable	1,477	1,359
Other current liabilities	1,077	1,138
Total Current Liabilities	2,606	3,010
Long-Term Debt	1,890	1,895
Deferred Income Taxes	450	479
Other Liabilities	582	560
Commitments and Contingencies (Note 15)		
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 322 million shares	32	32
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	2,388	2,292
Retained earnings	5,219	4,999
Accumulated other comprehensive loss	(116)	(108)
Treasury stock, at cost – 52 million shares at December 28, 2013, and 48 million shares at September 28, 2013	(1,245)	(1,021)
Total Tyson Shareholders' Equity	6,285	6,201
Noncontrolling Interests	31	32
Total Shareholders' Equity	6,316	6,233
Total Liabilities and Shareholders' Equity	$11,844	$12,177

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended	
	December 28, 2013	December 29, 2012
Cash Flows From Operating Activities:		
Net income	$252	$168
Depreciation and amortization	127	130
Deferred income taxes	(15)	(9)
Convertible debt discount	(92)	—
Other, net	22	23
Net changes in working capital	67	(122)
Cash Provided by Operating Activities	361	190
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(140)	(157)
Purchases of marketable securities	(10)	(7)
Proceeds from sale of marketable securities	9	8
Other, net	(3)	4
Cash Used for Investing Activities	(144)	(152)
Cash Flows From Financing Activities:		
Payments on debt	(379)	(35)
Net proceeds from borrowings	6	24
Purchases of Tyson Class A common stock	(159)	(115)
Dividends	(25)	(53)
Stock options exercised	12	19
Other, net	5	2
Cash Used for Financing Activities	(540)	(158)
Effect of Exchange Rate Changes on Cash	3	—
Decrease in Cash and Cash Equivalents	(320)	(120)
Cash and Cash Equivalents at Beginning of Year	1,145	1,071
Cash and Cash Equivalents at End of Period	$825	$951

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 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. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended September 28, 2013. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of December 28, 2013, and the results of operations for the three months ended December 28, 2013, and December 29, 2012. 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.

VARIABLE INTEREST ENTITIES

We have an investment in a joint venture, Dynamic Fuels LLC (Dynamic Fuels), in which we have a 50 percent ownership interest. Dynamic Fuels qualifies as a variable interest entity for which we consolidate as we are the primary beneficiary. At December 28, 2013, Dynamic Fuels had $160 million of total assets, of which $138 million was net property, plant and equipment, and $113 million of total liabilities, of which $100 million was long-term debt. At September 28, 2013, Dynamic Fuels had $166 million of total assets, of which $142 million was net property, plant and equipment, and $113 million of total liabilities, of which $100 million was long-term debt.

SHARE REPURCHASES

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

	Three Months Ended			
	December 28, 2013		December 29, 2012	
	Shares	Dollars	Shares	Dollars
Shares repurchased:				
Under share repurchase program	4.6	$150	5.1	$100
To fund certain obligations under equity compensation plans	0.3	9	0.8	15
Total share repurchases	4.9	$159	5.9	$115

As of December 28, 2013, 9.6 million shares remained available for repurchase. On January 30, 2014, our Board of Directors approved an increase of 25 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, 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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2011 and February 2013, the Financial Accounting Standards Board (FASB) issued guidance enhancing disclosures related to offsetting of certain assets and liabilities. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We adopted this guidance in the first quarter of fiscal 2014. The adoption did not have a significant impact on our consolidated condensed financial statements.

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NOTE 2: ACQUISITIONS

During fiscal 2013, we acquired two value-added food businesses as part of our strategic expansion initiative, which are included in our Prepared Foods segment. The aggregate purchase price of the acquisitions was $106 million, which included $50 million for property, plant and equipment, $41 million allocated to Intangible Assets and $12 million allocated to Goodwill.

NOTE 3: DISCONTINUED OPERATION

After conducting an assessment during fiscal 2013 of our long-term business strategy in China, we determined our Weifang operation (Weifang), which was part of our Chicken segment, was no longer core to the execution of our strategy given the capital investment it required to execute our future business plan. Consequently, we conducted an impairment test and recorded a $56 million impairment charge in the second quarter of fiscal 2013. We subsequently sold Weifang which resulted in reporting it as a discontinued operation. The sale was completed in July 2013 and did not result in a significant gain or loss as its carrying value approximated the sales proceeds at the time of sale. Weifang's prior periods results, including the impairment charge, have been reclassified and presented as a discontinued operation in our Consolidated Condensed Statements of Income. The following is a summary of the discontinued operation's results (in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
Sales	$—	$36
Pretax loss	—	4
Income tax expense	—	—
Loss from discontinued operation, net of tax	$—	$4

NOTE 4: 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, contract grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories. Total inventory consists of the following (in millions):

	December 28, 2013	September 28, 2013
Processed products:		
Weighted-average method – chicken and prepared foods	$780	$799
First-in, first-out method – beef and pork	622	624
Livestock – first-in, first-out method	982	1,002
Supplies and other – weighted-average method	394	392
Total inventory	$2,778	$2,817

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

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

	December 28, 2013	September 28, 2013
Land	$99	$100
Buildings and leasehold improvements	2,958	2,945
Machinery and equipment	5,535	5,504
Land improvements and other	421	417
Buildings and equipment under construction	292	236
	9,305	9,202
Less accumulated depreciation	5,233	5,149
Net property, plant and equipment	$4,072	$4,053

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NOTE 6: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	December 28, 2013	September 28, 2013
Accrued salaries, wages and benefits	$293	$419
Self-insurance reserves	268	267
Income taxes payable	143	111
Other	373	341
Total other current liabilities	$1,077	$1,138

NOTE 7: DEBT

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

	December 28, 2013	September 28, 2013
Revolving credit facility	$—	$—
Senior notes:		
3.25% Convertible senior notes due October 2013 (2013 Notes)	—	458
6.60% Senior notes due April 2016 (2016 Notes)	638	638
7.00% Notes due May 2018	120	120
4.50% Senior notes due June 2022 (2022 Notes)	1,000	1,000
7.00% Notes due January 2028	18	18
Discount on senior notes	(5)	(6)
GO Zone tax-exempt bonds due October 2033 (0.05% at 12/28/2013)	100	100
Other	71	80
Total debt	1,942	2,408
Less current debt	52	513
Total long-term debt	$1,890	$1,895

Revolving Credit Facility

We have a $1.0 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 August 2017. After reducing the amount available by outstanding letters of credit issued under this facility, the amount available for borrowing at December 28, 2013, was $964 million. At December 28, 2013, we had outstanding letters of credit issued under this facility totaling $36 million, none of which were drawn upon. We had an additional $146 million of bilateral letters of credit issued separately from the revolving credit facility, none of which were drawn upon. Our letters of credit are issued primarily in support of workers' compensation insurance programs, derivative activities and Dynamic Fuels' Gulf Opportunity Zone tax-exempt bonds.

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This facility is unsecured. However, if at any time (the Collateral Trigger Date) we shall fail to have (a) a corporate rating from Moody's Investors Service, Inc. (Moody's) of "Ba1" or better, (b) a corporate rating from Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (S&P), of "BB+" or better, or (c) a corporate rating from Fitch Ratings, a wholly owned subsidiary of Fimalac, S.A. (Fitch), of "BB+" or better, we, any subsidiary that has guaranteed any material indebtedness of the Company, and substantially all of our other domestic subsidiaries shall be required to secure the obligations under the credit agreement and related documents with a first-priority perfected security interest in our and such subsidiary's cash, deposit and securities accounts, accounts receivable and related assets, inventory and proceeds of any of the foregoing (the Collateral Requirement).

If on any date prior to any Collateral Trigger Date we shall have (a) a corporate rating from Moody's of "Baa2" or better, (b) a corporate rating from S&P of "BBB" or better and (c) a corporate rating from Fitch of "BBB" or better, in each case with stable or better outlook, then the Collateral Requirement will no longer be effective.

This facility 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.

2013 Notes

In September 2008, we issued $458 million principal amount 3.25% convertible senior unsecured notes which were due October 15, 2013. In connection with the issuance of the 2013 Notes, we entered into separate call option and warrant transactions with respect to our Class A stock to minimize the potential economic dilution upon conversion of the 2013 Notes. The call options contractually expired upon the maturity of the 2013 Notes. The 2013 Notes matured on October 15, 2013 at which time we paid the $458 million principal value with cash on hand, and settled the conversion premium by issuing 11.7 million shares of our Class A stock from available treasury shares. Simultaneous to the settlement of the conversion premium, we received 11.7 million shares of our Class A stock from the call options.

The warrants permit the purchasers to acquire up to approximately 27 million shares of our Class A stock at the current exercise price of $22.13 per share, subject to adjustment. The warrants are exercisable on various dates from January 2014 through April 2014. A 10% increase in our share price above the $22.13 warrant exercise price would result in the issuance of 2.5 million incremental shares. At $33.47, our closing share price on December 28, 2013, the incremental shares we would be required to issue upon exercise of the warrants would have resulted in 9.2 million shares.

2016 Notes

The 2016 Notes carry an interest rate at issuance of 6.60%, with an interest step up feature dependent on their credit rating. On June 7, 2012, Moody's upgraded the credit rating of the 2016 Notes from "Ba1" to "Baa3." This upgrade decreased the interest rate on the 2016 Notes from 6.85% to 6.60%, effective beginning with the six-month interest payment due October 1, 2012.

On February 11, 2013, S&P upgraded the credit rating of the 2016 Notes from "BBB-" to "BBB." This upgrade did not impact the interest rate on the 2016 Notes.

2022 Notes

In June 2012, we issued $1.0 billion of senior unsecured notes, which will mature in June 2022. The 2022 Notes carry a 4.50% interest rate, with interest payments due semi-annually on June 15 and December 15. After the original issue discount of $5 million, based on an issue price of 99.458%, we received net proceeds of $995 million. In addition, we incurred offering expenses of $9 million.

GO Zone Tax-Exempt Bonds

In October 2008, Dynamic Fuels received $100 million in proceeds from the sale of Gulf Opportunity Zone tax-exempt bonds made available by the federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These floating rate bonds are due October 1, 2033. We issued a letter of credit to effectively guarantee the bond issuance. If any amounts are disbursed related to this guarantee, we would seek recovery of 50% (up to $50 million) from Syntroleum Corporation, our joint venture partner, in accordance with our 2008 warrant agreement with Syntroleum Corporation.

Debt Covenants

Our revolving credit facility contains 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; dispose of or transfer assets; change the nature of our business; engage in certain transactions with affiliates; and enter into sale/leaseback or 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 2022 Notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens; engage in certain sale/leaseback transactions; and engage in certain consolidations, mergers and sales of assets.

We were in compliance with all debt covenants at December 28, 2013.

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NOTE 8: INCOME TAXES

The effective tax rate for continuing operations was 34.3% and 35.8% for the first quarter of fiscal 2014 and 2013, respectively. The effective tax rate for the first quarter of fiscal 2014 was impacted by such items as the domestic production deduction, state income taxes and losses in foreign jurisdictions for which no benefit is recognized.

Unrecognized tax benefits were $169 million and $175 million at December 28, 2013, and September 28, 2013, respectively. The amount of unrecognized tax benefits, if recognized, that would impact our effective tax rate was $144 million and $149 million at December 28, 2013, and September 28, 2013, respectively.

We classify interest and penalties on unrecognized tax benefits as income tax expense. At December 28, 2013, and September 28, 2013, before tax benefits, we had $69 million and $63 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

We are subject to income tax examinations for U.S. federal income taxes for fiscal years 2007 through 2012. We are also subject to income tax examinations by major state and foreign jurisdictions for fiscal years 2003 through 2012 and 2002 through 2012, respectively. We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease by as much as $41 million primarily due to expiration of statutes of limitations in various jurisdictions and settlements with taxing authorities.

NOTE 9: OTHER INCOME AND CHARGES

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

During the first quarter of fiscal 2013, we recorded $3 million of equity earnings in joint ventures and $3 million in net foreign currency exchange losses, 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	
	December 28, 2013	December 29, 2012
Numerator:		
Income from continuing operations	$252	$172
Less: Net loss attributable to noncontrolling interests	(2)	(5)
Net income from continuing operations attributable to Tyson	254	177
Less dividends declared:		
Class A	28	46
Class B	6	10
Undistributed earnings	$220	$121
Class A undistributed earnings	$179	$99
Class B undistributed earnings	41	22
Total undistributed earnings	$220	$121
Denominator:		
Denominator for basic earnings per share:		
Class A weighted average shares	271	285
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70
Effect of dilutive securities:		
Stock options and restricted stock	5	5
Convertible 2013 Notes	—	2
Warrants	8	—
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	354	362
Net Income Per Share from Continuing Operations Attributable to Tyson:		
Class A Basic	$0.76	$0.51
Class B Basic	$0.68	$0.46
Diluted	$0.72	$0.49
Net Income Per Share Attributable to Tyson:		
Class A Basic	$0.76	$0.50
Class B Basic	$0.68	$0.45
Diluted	$0.72	$0.48

Approximately 5 million and 8 million of our stock-based compensation shares were antidilutive for the three months ended December 28, 2013 and December 29, 2012, respectively. These shares were not included in the dilutive earnings per share calculation.

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

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

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NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

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

Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored, using Value-at-Risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit-worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at December 28, 2013.

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

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

Cash flow hedges

Derivative instruments, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. We do not purchase forward and option commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 18 months. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three months ended December 28, 2013, and December 29, 2012.

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

	Metric	December 28, 2013	September 28, 2013
Commodity:			

Corn	Bushels	8	5
Soy meal	Tons	126,700	96,800
Foreign Currency	United States dollar	$29	$60

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As of December 28, 2013, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $9 million related to grains. During the three months ended December 28, 2013, and December 29, 2012, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges due to the probability the original forecasted transaction would not occur by the end of the originally specified time period or within the additional period of time allowed by generally accepted accounting principles.

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

	Gain/(Loss) Recognized in OCI On Derivatives Three Months Ended		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings Three Months Ended	
	December 28, 2013	December 29, 2012		December 28, 2013	December 29, 2012
Cash Flow Hedge – Derivatives designated as hedging instruments:					
Commodity contracts	$(2)	$(13)	Cost of Sales	$—	$4
Foreign exchange contracts	(1)	—	Other Income/Expense	—	(2)
Total	$(3)	$(13)		$—	$2

Fair value hedges

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

	Metric	December 28, 2013	September 28, 2013
Commodity:			
Live Cattle	Pounds	233	209
Lean Hogs	Pounds	368	384

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 Statements of Income Classification	Three Months Ended December 28, 2013	December 29, 2012
Gain/(Loss) on forwards	Cost of Sales	$(6)	$4
Gain/(Loss) on purchase contract	Cost of Sales	6	(4)

Ineffectiveness related to our fair value hedges was not significant for the three months ended December 28, 2013, and December 29, 2012.

Undesignated positions

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

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

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

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

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

	Metric	December 28, 2013	September 28, 2013
Commodity:			
Corn	Bushels	28	69
Soy Meal	Tons	219,800	204,600
Soy Oil	Pounds	—	11
Live Cattle	Pounds	28	60
Lean Hogs	Pounds	75	159
Foreign Currency	United States dollars	$203	$95

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

	Consolidated Condensed Statements of Income Classification	Gain/(Loss) Recognized in Earnings	
		Three Months Ended	
		December 28, 2013	December 29, 2012
Derivatives not designated as hedging instruments:			
Commodity contracts	Sales	$2	$11
Commodity contracts	Cost of Sales	(2)	(7)
Foreign exchange contracts	Other Income/Expense	(1)	1
Total		$(1)	$5

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

	Fair Value December 28, 2013	September 28, 2013
Derivative Assets:		
Derivatives designated as hedging instruments:		
Commodity contracts	$8	$4
Foreign exchange contracts	—	1
Total derivative assets – designated	8	5
Derivatives not designated as hedging instruments:		
Commodity contracts	18	25
Foreign exchange contracts	1	2
Total derivative assets – not designated	19	27
Total derivative assets	$27	$32
Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Commodity contracts	$29	$29
Foreign exchange contracts	—	—
Total derivative liabilities – designated	29	29
Derivatives not designated as hedging instruments:		
Commodity contracts	26	72
Foreign exchange contracts	2	1
Total derivative liabilities – not designated	28	73
Total derivative liabilities	$57	$102

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

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

December 28, 2013	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Commodity Derivatives	$—	$26	$—	$(19)	$7
Foreign Exchange Forward Contracts	—	1	—	—	1
Available-for-Sale Securities:					
Current	—	1	—	—	1
Non-current	3	26	64	—	93
Deferred Compensation Assets	13	208	—	—	221
Total Assets	$16	$262	$64	$(19)	$323
Liabilities:					
Commodity Derivatives	$—	$55	$—	$(53)	$2
Foreign Exchange Forward Contracts	—	2	—	(1)	1
Total Liabilities	$—	$57	$—	$(54)	$3
September 28, 2013	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Commodity Derivatives	$—	$29	$—	$(21)	$8
Foreign Exchange Forward Contracts	—	3	—	(1)	2
Available-for-Sale Securities:					
Current	—	1	—	—	1
Non-current	4	24	65	—	93
Deferred Compensation Assets	23	191	—	—	214
Total Assets	$27	$248	$65	$(22)	$318
Liabilities:					
Commodity Derivatives	$—	$101	$—	$(101)	$—
Foreign Exchange Forward Contracts	—	1	—	—	1
Total Liabilities	$—	$102	$—	$(101)	$1

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At December 28, 2013, and September 28, 2013, we had posted with various counterparties $35 million and $79 million, respectively, of cash collateral related to our commodity derivatives and held no cash collateral.

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

	Three Months Ended	
	December 28, 2013	December 29, 2012
Balance at beginning of year	$65	$86
Total realized and unrealized gains (losses):		
Included in earnings	—	—
Included in other comprehensive income (loss)	—	—
Purchases	7	3
Issuances	—	—
Settlements	(8)	(4)
Balance at end of period	$64	$85
Total gains (losses) for the three-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period	$—	$—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Derivative Assets and Liabilities: Our commodities and foreign exchange forward contracts primarily include exchange-traded and over-the-counter contracts which are further described in Note 11: Derivative Financial Instruments. We record our commodity derivatives at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward commodity market prices. Our foreign exchange forward contracts are recorded at fair value based on quoted prices and spot and forward currency prices adjusted for credit and non-performance risk. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges or observable market transactions of spot currency rates and forward currency prices.
Available-for-Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Condensed Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Condensed Balance Sheets and have maturities ranging up to 35 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated condensed financial statements.
Additionally, we have 0.8 million shares of Syntroleum Corporation common stock and 0.4 million warrants, which expire in June 2015, to purchase an equivalent amount of Syntroleum Corporation common stock at an average price of $28.70. We record the shares and warrants in Other Assets in the Consolidated Condensed Balance Sheets at fair value based on quoted market prices. We classify the shares as Level 1 as the fair value is based on unadjusted quoted prices available in active markets. We classify the warrants as Level 2 as fair value can be corroborated based on observable market data.

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

	December 28, 2013			September 28, 2013		
	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	$27	$27	$—	$25	$25	$—
Corporate and Asset-Backed	63	64	1	64	65	1
Equity Securities:						
Common Stock and Warrants (a)						