TIME WARNER INC.
Form 10-Q
November 02, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

for the quarterly period ended September 30, 2011 or

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

for the transition period from ____________________ to ____________________

Commission file number 001-15062

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Time Warner Center

New York, NY 10019-8016

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	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 þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of October 25, 2011
Common Stock $.01 par value	1,000,883,588

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INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Inc. s (Time Warner or the Company) businesses, current developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of Time Warner s business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Results of operations. This section provides an analysis of the Company s results of operations for the three and nine months ended September 30, 2011. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of transactions and events that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of September 30, 2011 and cash flows for the nine months ended September 30, 2011.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements.

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MANAGEMENT S DISCUSSION AND ANALYSIS

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OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are TNT, TBS, CNN, HBO, Cinemax, Warner Bros., New Line Cinema, *People*, *Sports Illustrated* and *Time*. During the nine months ended September 30, 2011, the Company generated Revenues of $20.781 billion (up 9% from $19.076 billion in 2010), Operating Income of $4.132 billion (up 3% from $4.004 billion in 2010), Net Income attributable to Time Warner shareholders of $2.113 billion (up 17% from $1.809 billion in 2010) and Cash Provided by Operations from Continuing Operations of $2.146 billion (down 7% from $2.319 billion in 2010).

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Networks, Filmed Entertainment and Publishing. For additional information regarding Time Warner s business segments, refer to Note 11, Segment Information, in the accompanying consolidated financial statements.

Networks. Time Warner s Networks segment consists of Turner Broadcasting System, Inc. (Turner) and Home Box Office, Inc. (Home Box Office). During the nine months ended September 30, 2011, the Networks segment generated Revenues of $10.155 billion (49% of the Company s overall Revenues) and $3.278 billion in Operating Income.

Turner operates domestic and international networks, including such recognized brands as TNT, TBS, truTV, CNN and Cartoon Network, which are among the leaders in advertising-supported cable television networks. The Turner networks generate revenues principally from providing programming to affiliates that have contracted to receive and distribute this programming and from the sale of advertising. Turner also operates various websites, including *CartoonNetwork.com*, *CNN.com*, *Golf.com*, *NASCAR.com*, *NCAA.com* and *SI.com* that generate revenues principally from the sale of advertising. In 2011, Turner continued to expand its online and mobile offerings for its networks by rolling out applications and websites for on demand viewing of programs on its TNT, TBS, Cartoon Network, Adult Swim and truTV networks and live streaming of its CNN and HLN networks to authenticated subscribers.

Turner has a multi-year arrangement with the National Basketball Association (the NBA) to televise NBA games on Turner s TNT network. On June 30, 2011, the collective bargaining agreement between the NBA and the National Basketball Players Association expired, and on July 1, 2011 the NBA announced a lockout of the players (the NBA Lockout), which has resulted in the cancellation of NBA 2011-2012 season games through the end of November. For the three months ended September 30, 2011, the NBA Lockout did not have a material impact on the Networks segment s operating results, and the Company does not expect it to have a material impact on the segment s operating results for the remainder of the year. However, the longer-term impact of the NBA Lockout will be influenced by many factors including viewer ratings on TNT and advertising demand after the NBA Lockout ends. Because of the inherent uncertainties surrounding the NBA Lockout, the Company is unable to quantify the adverse impact that a prolonged NBA Lockout would have on the Networks segment s operating results.

Home Box Office operates the HBO and Cinemax multi-channel premium pay television services, with the HBO service ranking as the most widely distributed domestic multi-channel premium pay television service. Home Box Office generates revenues principally from providing programming to affiliates that have contracted to receive and distribute such programming to their customers who choose to subscribe to the HBO or Cinemax services. An additional source of revenues for Home Box Office is the sale and licensing of its original programming, including *True Blood*, *The Pacific*, *Sex and the City* and *Entourage*. In 2010, Home Box Office launched its on demand broadband offerings of HBO and Cinemax by rolling out HBO GO and MAX GO, its authenticated online video services. In the second quarter and third quarter of 2011, Home Box Office made available HBO GO and MAX GO, respectively, on mobile devices, including the iPad, iPhone and Android smart phones. HBO GO was available to approximately 80% of the HBO domestic subscriber base and MAX GO was available to approximately 85% of the Cinemax domestic subscriber base as of November 2, 2011.

The Company s Networks segment has been pursuing international expansion in select areas for the past several years. During the first quarter of 2011, Home Box Office purchased an additional 8% equity interest in HBO Latin America Group, consisting of HBO Brazil, HBO Olé and

HBO Latin America Production Services (collectively, HBO LAG), for $65 million, resulting in Home Box Office owning 88% of the equity interests in HBO LAG. The investment in HBO LAG

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is accounted for under the equity method of accounting, because control of the entity is shared with the remaining minority partner. The Company anticipates that international expansion will continue to be an area of focus at the Networks segment for the foreseeable future.

Filmed Entertainment. Time Warner s Filmed Entertainment segment consists of businesses managed by the Warner Bros. Entertainment Group (Warner Bros.) that principally produce and distribute theatrical motion pictures, including the following recently released films: *Harry Potter and the Deathly Hallows: Part 2*, *The Hangover Part II* and *Horrible Bosses*, as well as television shows and videogames. During the nine months ended September 30, 2011, the Filmed Entertainment segment generated Revenues of $8.748 billion (39% of the Company s overall Revenues) and $836 million in Operating Income.

The Filmed Entertainment segment s theatrical product revenues are generated principally through rentals from theatrical exhibition and subsequently through licensing fees received for the distribution of films on television networks and pay television programming services. Television product revenues are generated principally from the licensing of the Filmed Entertainment segment s programs on television networks and pay television programming services. The Filmed Entertainment segment also generates revenues for both its theatrical and television product through home video distribution on DVD and Blu-ray Discs and in various digital formats. In addition, the Filmed Entertainment segment generates revenues through the distribution of interactive videogames.

Warner Bros. continues to be an industry leader in the television content business. During the 2011-2012 broadcast season, Warner Bros. expects to produce more than 30 scripted primetime series, with at least three series for each of the five broadcast networks (including *2 Broke Girls*, *The Big Bang Theory*, *Fringe*, *Harry s Law*, *The Mentalist*, *The Middle*, *Mike & Molly*, *Two and a Half Men* and *Vampire Diaries*) and original series for several cable networks (including *The Closer*, *Pretty Little Liars*, *Rizzoli & Isles* and *Southland*). Internationally, Warner Bros. has begun to form a group of local television production companies in major territories with a focus on non-scripted programs and formats that can be sold internationally and adapted for sale in the U.S. Warner Bros. has also begun to create locally produced versions of programs owned by the studio and to develop original local television programming.

The distribution of DVDs has been one of the largest drivers of the segment s revenues and profits over the last several years. However, in recent years, home video revenues have declined as a result of several factors, including consumers shifting to subscription rental services and discount rental kiosks, which generate significantly less revenue per transaction for the Company than DVD sales, the general economic downturn in the U.S. and many regions around the world, increasing competition for consumer discretionary time and spending, piracy, and the maturation of the standard definition DVD format. Reduced consumer spending on DVDs is being partially offset by growing sales of high definition Blu-ray Discs and increased sales through electronic delivery (particularly video-on-demand), which have higher gross margins than standard definition DVDs. The decline in consumer spending on DVDs is also being partially offset by the sale of theatrical and television content to subscription video-on-demand providers. For example, on October 13, 2011, Warner Bros. and CBS Corporation announced a licensing agreement with Netflix, Inc. (Netflix) that will allow Netflix s U.S. members to stream previous seasons of scripted series that are currently on The CW network or that premiere on the network through the 2014-2015 broadcast season.

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and related websites as well as marketing services and direct-marketing businesses that are all primarily conducted by Time Inc. During the nine months ended September 30, 2011, the Publishing segment generated Revenues of $2.633 billion (12% of the Company s overall Revenues) and $356 million in Operating Income.

As of September 30, 2011, Time Inc. published 21 magazines in the U.S., including *People*, *Sports Illustrated* and *Time*, and over 70 magazines outside the U.S. The Publishing segment generates revenues primarily from the sale of print advertising, magazine subscriptions and newsstand sales. Digital Advertising revenues were 12% and 13% of Time Inc. s total Advertising revenues for the three and nine months ended September 30, 2011, respectively, compared to 13% and 14% for the three and nine months ended September 30, 2010, respectively.

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Recent Developments

2011 Debt Offerings

On October 17, 2011, Time Warner issued $1.0 billion aggregate principal amount of debt securities from its shelf registration statement. On April 1, 2011, Time Warner issued $2.0 billion aggregate principal amount of debt securities from its shelf registration statement. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for more information.

Revolving Bank Credit Facilities

On September 27, 2011, Time Warner amended its $5.0 billion senior unsecured credit facilities, which had consisted of a $2.5 billion three-year revolving credit facility and a $2.5 billion five-year revolving credit facility. The amendment changed the $2.5 billion three-year revolving credit facility to a $2.5 billion four-year revolving credit facility with a maturity date of September 27, 2015 (the Four Year Revolving Credit Facility) and extended the maturity date of the $2.5 billion five-year revolving credit facility from January 19, 2016 to September 27, 2016 (the Five Year Revolving Credit Facility and together with the Four Year Revolving Credit Facility, the Revolving Credit Facilities). The amendment also reduced interest rates and facility fees and eliminated the reference to the percentage of commitments used under the Revolving Credit Facilities for the purpose of calculating the interest rate on borrowings under the Revolving Credit Facilities. See Financial Condition and Liquidity Outstanding Debt and Other Financing Arrangements for more information.

RESULTS OF OPERATIONS

Recent Accounting Guidance Not Yet Adopted

See Note 1 to the accompanying consolidated financial statements for a discussion of recent accounting guidance not yet adopted.

Transactions and Other Items Affecting Comparability

As more fully described herein and in the related notes to the accompanying consolidated financial statements, the comparability of Time Warner s results has been affected by transactions and certain other items in each period as follows (millions):

	Three Months Ended		Nine Months Ended	
	9/30/11	9/30/10	9/30/11	9/30/10
Asset impairments	$ (4)	$ (9)	$ (15)	$ (9)
Gain on operating assets	1	-	6	59
Other	(6)	(2)	(18)	(21)
Impact on Operating Income	(9)	(11)	(27)	29
Investment gains (losses), net	2	2	(1)	2
Amounts related to the separation of Time Warner Cable Inc.	(15)	2	(10)	(5)
Premiums paid and transaction costs incurred in connection with debt redemptions	-	(295)	-	(364)
Pretax impact[(a)]	(22)	(302)	(38)	(338)

Income tax impact of above items		8		116		22		144
Impact of items on net income attributable to Time Warner Inc. shareholders	$	(14)	$	(186)	$	(16)	$	(194)

[(a)] For the three and nine months ended September 30, 2010, pretax impact amount does not include $4 million and $15 million, respectively, of external costs related to mergers, acquisitions or dispositions.

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In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of $30 million and $84 million for the three and nine months ended September 30, 2011, respectively, and $29 million and $44 million for the three and nine months ended September 30, 2010, respectively. For further discussion of Restructuring and severance costs, refer to Consolidated Results and Business Segment Results.

Asset Impairments

During the three and nine months ended September 30, 2011, the Company recorded $1 million and $12 million, respectively, of noncash impairments of capitalized software costs at the Filmed Entertainment segment as well as $3 million of other miscellaneous noncash asset impairments at the Filmed Entertainment segment for both the three and nine months ended September 30, 2011.

During the three and nine months ended September 30, 2010, the Company recorded a $9 million noncash impairment of intangible assets related to the termination of a videogames licensing relationship at the Filmed Entertainment segment.

Gain on Operating Assets

For the three and nine months ended September 30, 2011, the Company recognized Gains on operating assets of $1 million and $6 million, respectively.

For the nine months ended September 30, 2010, the Company recognized a $59 million gain at the Networks segment upon the acquisition of the controlling interest in HBO Central Europe (HBO CE), reflecting the recognition of the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

Other

Other reflects legal and other professional fees related to the defense of securities litigation matters for former employees totaling $2 million and $6 million for the three and nine months ended September 30, 2011, respectively, and $2 million and $21 million for the three and nine months ended September 30, 2010, respectively. Other also reflects external costs related to mergers, acquisitions or dispositions of $4 million and $12 million for the three and nine months ended September 30, 2011, respectively.

Investment Gains (Losses), Net

For the three and nine months ended September 30, 2011, the Company recognized $2 million of net miscellaneous investment gains and $1 million of net miscellaneous investment losses, respectively.

For both the three and nine months ended September 30, 2010, the Company recognized $2 million of net miscellaneous investment gains.

Amounts Related to the Separation of Time Warner Cable Inc.

For the three and nine months ended September 30, 2011, the Company recognized $10 million and $5 million, respectively, of other loss related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by Time Warner Cable Inc. (TWC) employees and $5 million of other loss for both the three and nine months ended September 30, 2011 related to changes in the value of a TWC tax indemnification receivable.

For the three and nine months ended September 30, 2010, the Company recognized $2 million of other income and $5 million of other loss, respectively, related to the expiration, exercise and net change in the estimated fair value of Time Warner equity awards held by TWC employees.

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Premiums Paid and Transaction Costs Incurred in Connection with Debt Redemptions

For the three and nine months ended September 30, 2010, the Company recognized $295 million and $364 million, respectively, of premiums paid and transaction costs incurred in connection with debt redemptions. During the three months ended September 30, 2010, the Company repurchased and redeemed all $1.0 billion aggregate principal amount of the 5.50% Notes due 2011 of Time Warner, $1.362 billion aggregate principal amount of outstanding 6.875% Notes due 2012 of Time Warner and $568 million aggregate principal amount of outstanding 9.125% Debentures due 2013 of Historic TW Inc. (as successor by merger to Time Warner Companies, Inc.). In addition, during the nine months ended September 30, 2010, the Company repurchased and redeemed all $1.0 billion aggregate principal amount of the 6.75% Notes due 2011 of Time Warner.

Income Tax Impact

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability. Such estimated tax provisions or tax benefits vary based on certain factors, including the taxability or deductibility of the items and foreign tax on certain transactions.

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying consolidated statement of operations.

Revenues. The components of Revenues are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	**9/30/10**	**% Change**	**9/30/11**	**9/30/10**	**% Change**
Subscription	$ 2,376	$ 2,263	5%	$ 7,135	$ 6,725	6%
Advertising	1,395	1,330	5%	4,452	4,027	11%
Content	3,130	2,636	19%	8,709	7,914	10%
Other	167	148	13%	485	410	18%
Total revenues	$ 7,068	$ 6,377	11%	$ 20,781	$ 19,076	9%

The increase in Subscription and Advertising revenues for the three and nine months ended September 30, 2011 was primarily related to an increase at the Networks segment. The increase in Content revenues for the three months ended September 30, 2011 was due primarily to an increase at the Filmed Entertainment segment and for the nine months ended September 30, 2011 was primarily due to increases at the Filmed Entertainment and Networks segments.

Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For the three months ended September 30, 2011 and 2010, Costs of revenues totaled $3.808 billion and $3.529 billion, respectively, and, for the nine months ended September 30, 2011 and 2010, Costs of revenues totaled $11.579 billion and $10.481 billion, respectively. The increases in Costs of revenues for the three and nine months ended September 30, 2011 were driven primarily by increases at the Networks and Filmed Entertainment segments. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended September 30, 2011, Selling, general and administrative expenses increased 11% to $1.563 billion from $1.409 billion for the three months ended September 30, 2010. For the nine months ended September 30, 2011, Selling, general and administrative expenses increased 8% to $4.775 billion from $4.409 billion for the nine months ended September 30, 2010. The increases in Selling, general and administrative expenses for the three and nine months ended September 30, 2011 primarily related to increases at the Networks and Filmed Entertainment segments. The segment variations are discussed in Business Segment Results.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of $160 million and $487 million for the three and nine months ended September 30, 2011, respectively, and $168 million and $502 million

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for the three and nine months ended September 30, 2010, respectively.

Amortization Expense. Amortization expense increased to $68 million and $202 million for the three and nine months ended September 30, 2011, respectively, from $54 million and $188 million for the three and nine months ended September 30, 2010, respectively.

Restructuring and Severance Costs. For the three and nine months ended September 30, 2011, the Company incurred Restructuring and severance costs of $30 million and $84 million, respectively, primarily related to employee terminations and other exit activities, consisting of $16 million and $34 million, respectively, at the Networks segment, $11 million and $33 million, respectively, at the Filmed Entertainment segment and $3 million and $15 million, respectively, at the Publishing segment and, for the nine months ended September 30, 2011, $2 million at the Corporate segment.

For the three and nine months ended September 30, 2010, the Company incurred Restructuring and severance costs of $29 million and $44 million, respectively, primarily related to employee terminations and other exit activities, consisting of $5 million for both periods at the Networks segment, $10 million and $17 million, respectively, at the Filmed Entertainment segment and $14 million and $22 million, respectively, at the Publishing segment.

Operating Income. Operating Income increased to $1.596 billion for the three months ended September 30, 2011 from $1.347 billion for the three months ended September 30, 2010. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $9 million and $11 million of expense for the three months ended September 30, 2011 and 2010, respectively, Operating Income increased $247 million, primarily reflecting an increase at the Filmed Entertainment segment, partially offset by declines at the Networks and Publishing segments.

Operating Income increased to $4.132 billion for the nine months ended September 30, 2011 from $4.004 billion for the nine months ended September 30, 2010. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $27 million of expense and $29 million of income for the nine months ended September 30, 2011 and 2010, respectively, Operating Income increased $184 million, primarily reflecting increases at the Filmed Entertainment, Networks and Publishing segments.

The segment variations are discussed under Business Segment Results.

Interest Expense, Net. For the three and nine months ended September 30, 2011, Interest expense, net, increased to $310 million and $898 million, respectively, from $299 million and $895 million for the three and nine months ended September 30, 2010, respectively. The increases for both the three and nine months ended September 30, 2011 reflect higher average debt in 2011, primarily related to the issuance of $2.0 billion aggregate principal amount of debt securities in April 2011, partially offset by lower average interest rates due in part to the debt transactions the Company completed in 2010 and 2011.

Other Loss, Net. Other loss, net detail is shown in the table below (millions):

	Three Months Ended		Nine Months Ended	
	9/30/11	**9/30/10**	**9/30/11**	**9/30/10**
Investment gains (losses), net	$ 2	$ 2	$ (1)	$ 2
Amounts related to the separation of TWC	(15)	2	(10)	(5)
Premiums paid and transaction costs incurred in connection with debt redemptions	-	(295)	-	(364)
Loss from equity method investees	(17)	(19)	(27)	(22)
Other	(3)	3	(11)	12

Other loss, net	$	(33)	$	(307)	$	(49)	$	(377)

The changes in Other loss, net related to investment gains (losses), net, amounts related to the separation of TWC and premiums paid and transaction costs incurred in connection with debt redemptions are discussed under Transactions and Other Items Affecting Comparability. For the nine months ended September 30, 2011, the remaining change in Other loss,

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net was due primarily to the unfavorable impact of foreign exchange rates.

Income Tax Provision. Income tax expense increased to $431 million and $1.075 billion for the three and nine months ended September 30, 2011, respectively, from $221 million and $927 million for the three and nine months ended September 30, 2010, respectively. The Company s effective tax rate for continuing operations was 34% for both the three and nine months ended September 30, 2011, respectively, compared to 30% and 34% for the three and nine months ended September 30, 2010, respectively. The increase in the effective tax rate for the three months ended September 30, 2011 was primarily due to the benefit of valuation allowance releases on tax attributes during the three months ended September 30, 2010.

Net Income. Net income increased to $822 million for the three months ended September 30, 2011 from $520 million for the three months ended September 30, 2010. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $14 million and $186 million of expense, net for the three months ended September 30, 2011 and 2010, respectively, Net income for the three months ended September 30, 2011 increased by $130 million, primarily reflecting higher Operating Income.

Net income increased to $2.110 billion for the nine months ended September 30, 2011 from $1.805 billion for the nine months ended September 30, 2010. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $16 million and $194 million of expense, net for the nine months ended September 30, 2011 and 2010, respectively, Net income for the nine months ended September 30, 2011 increased by $127 million, primarily reflecting higher Operating Income.

Net Loss Attributable to Noncontrolling Interests. For the three and nine months ended September 30, 2011, Net loss attributable to noncontrolling interests was $0 and $3 million, respectively. For the three and nine months ended September 30, 2010, Net loss attributable to noncontrolling interests was $2 million and $4 million, respectively.

Net Income Attributable to Time Warner Inc. Shareholders. Net income attributable to Time Warner Inc. shareholders was $822 million and $522 million for the three months ended September 30, 2011 and 2010, respectively. Basic and Diluted net income per common share attributable to Time Warner Inc. common shareholders were $0.79 and $0.78, respectively, for the three months ended September 30, 2011 compared to $0.46 for both for the three months ended September 30, 2010.

Net income attributable to Time Warner Inc. shareholders was $2.113 billion and $1.809 billion for the nine months ended September 30, 2011 and 2010, respectively. Basic and Diluted net income per common share attributable to Time Warner Inc. common shareholders were $1.97 and $1.95, respectively, for the nine months ended September 30, 2011 compared to $1.58 and $1.57, respectively, for the nine months ended September 30, 2010.

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Business Segment Results

Networks. Revenues and Operating Income of the Networks segment for the three and nine months ended September 30, 2011 and 2010 are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Revenues:						
Subscription	$ 2,038	$ 1,926	6%	$ 6,136	$ 5,730	7%
Advertising	922	848	9%	3,068	2,640	16%
Content	203	203	-	833	673	24%
Other	45	27	67%	118	89	33%
Total revenues	3,208	3,004	7%	10,155	9,132	11%
Costs of revenues[(a)]	(1,423)	(1,285)	11%	(4,788)	(4,053)	18%
Selling, general and administrative[(a)]	(587)	(483)	22%	(1,778)	(1,530)	16%
Gain (loss) on operating assets	-	-	-	(2)	59	(103%)
Restructuring and severance costs	(16)	(5)	220%	(34)	(5)	NM
Depreciation	(80)	(86)	(7%)	(244)	(258)	(5%)
Amortization	(10)	(7)	43%	(31)	(25)	24%
Operating Income	$ 1,092	$ 1,138	(4%)	$ 3,278	$ 3,320	(1%)

(a) Costs of revenues and Selling, general and administrative expenses exclude depreciation.

The increase in Subscription revenues for the three and nine months ended September 30, 2011 consisted of an increase in domestic subscription revenues of $69 million and $275 million, respectively, mainly due to higher domestic subscription rates, and an increase in international subscription revenues of $43 million and $131 million, respectively, primarily due to international subscriber growth and the favorable effect of foreign exchange rates.

The increase in Advertising revenues for the three and nine months ended September 30, 2011 reflected domestic growth of $34 million and $294 million, respectively, due to strong pricing and for the nine months ended September 30, 2011 also as a result of sports programming. International advertising revenues for the three and nine months ended September 30, 2011 increased $40 million and $134 million, respectively, primarily due to international growth, including acquisitions.

Content revenues for the three months ended September 30, 2011 were flat. The increase in Content revenues for the nine months ended September 30, 2011 was due primarily to higher sales of Home Box Office s original programming of $108 million and higher licensing revenues of $42 million at Turner.

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The components of Costs of revenues for the Networks segment are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Programming costs:						
Originals and sports	$ 636	$ 543	17%	$ 2,387	$ 1,848	29%
Acquired films and syndicated series	467	455	3%	1,366	1,336	2%
Total programming costs	1,103	998	11%	3,753	3,184	18%
Other direct operating costs	320	287	11%	1,035	869	19%
Costs of revenues[(a)]	$ 1,423	$ 1,285	11%	$ 4,788	$ 4,053	18%

(a) Costs of revenues exclude depreciation.

The increases in Costs of revenues for the three and nine months ended September 30, 2011 were driven by higher programming costs and other direct operating costs. The increase in programming costs for the three and nine months ended September 30, 2011 reflected higher costs for originals and sports programming. Higher sports programming costs for the three months ended September 30, 2011 primarily related to the timing of sports events and for the nine months ended September 30, 2011 primarily related to the NCAA Tournament programming. The increase in other direct operating costs for the three months ended September 30, 2011 was primarily due to higher international costs of $10 million related to international growth. The increase in other direct operating costs for the nine months ended September 30, 2011 was driven by higher international costs of $54 million related to international growth and higher Home Box Office distribution costs of $39 million primarily associated with the increase in content sales of Home Box Office s original programming.

For the three and nine months ended September 30, 2011, Selling, general and administrative expenses increased due primarily to higher marketing expenses of $24 million and $108 million, respectively, which for the nine months ended September 30, 2011 included expenses associated with an HBO GO national marketing campaign. Selling, general and administrative expenses for the three and nine months ended September 30, 2011 also included higher international costs of $12 million and $39 million, respectively, primarily associated with growth. In addition, Selling, general and administrative expenses for the three and nine months ended September 30, 2010 included a $58 million reserve reversal in connection with the resolution of litigation related to the 2004 sale of the Atlanta Hawks and Thrashers sports franchises and certain operating rights to the Philips Arena.

As previously noted under Transactions and Other Items Affecting Comparability, the results for the nine months ended September 30, 2010 included a $59 million gain that was recognized upon the Company s acquisition of the controlling interest in HBO CE, reflecting the excess of the fair value over the Company s carrying costs of its original investment in HBO CE.

Operating Income decreased for the three and nine months ended September 30, 2011 primarily due to higher Costs of revenues and Selling, general and administrative expenses, partially offset by higher revenues. Operating Income for the three and nine months ended September 30, 2011 was negatively affected by the absence in 2011 of the $58 million reserve reversal in connection with the resolution of litigation discussed above and for the nine months ended September 30, 2011 was also negatively affected by the absence in 2011 of the $59 million gain relating to HBO CE, as discussed above. The Company anticipates that Operating Income at the Networks segment will grow in the fourth quarter of 2011, as compared to a decline for the first nine months of 2011, due primarily to the timing of expenses.

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Filmed Entertainment. Revenues and Operating Income of the Filmed Entertainment segment for the three and nine months ended September 30, 2011 and 2010 are as follows (millions):

	0000000000	0000000000	0000000000	0000000000	0000000000	0000000000
	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Revenues:						
Subscription	$ 22	$ 19	16%	$ 60	$ 44	36%
Advertising	26	21	24%	58	51	14%
Content	3,212	2,704	19%	8,496	7,804	9%
Other	37	32	16%	134	87	54%
Total revenues	3,297	2,776	19%	8,748	7,986	10%
Costs of revenues[(a)]	(2,210)	(2,079)	6%	(6,197)	(5,787)	7%
Selling, general and administrative[(a)]	(454)	(394)	15%	(1,390)	(1,228)	13%
Gain on operating assets	1	-	NM	8	-	NM
Asset impairments	(4)	(9)	(56%)	(15)	(9)	67%
Restructuring and severance costs	(11)	(10)	10%	(33)	(17)	94%
Depreciation	(48)	(47)	2%	(146)	(134)	9%
Amortization	(47)	(37)	27%	(139)	(131)	6%
Operating Income	$ 524	$ 200	162%	$ 836	$ 680	23%

(a) Costs of revenues and Selling, general and administrative expenses exclude depreciation.

Content revenues primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television). The components of Content revenues for the three and nine months ended September 30, 2011 and 2010 are as follows (millions):

	0000000000	0000000000	0000000000	0000000000	0000000000	0000000000
	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Theatrical product:						
Theatrical film	$ 979	$ 518	89%	$ 1,757	$ 1,485	18%
Home video and electronic delivery	421	534	(21%)	1,670	1,780	(6%)

Television licensing	352	424	(17%)	1,113	1,223	(9%)
Consumer products and other	43	26	65%	107	74	45%
Total theatrical product	1,795	1,502	20%	4,647	4,562	2%
Television product:						
Television licensing	1,028	780	32%	2,572	2,147	20%
Home video and electronic delivery	161	215	(25%)	419	501	(16%)
Consumer products and other	63	42	50%	168	145	16%
Total television product	1,252	1,037	21%	3,159	2,793	13%
Other	165	165	-	690	449	54%
Total Content revenues	$ 3,212	$ 2,704	19%	$ 8,496	$ 7,804	9%

The increase in Content revenues for the three and nine months ended September 30, 2011 included the net positive impact

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of foreign exchange rates on the segment s international operations of approximately $100 million and $220 million, respectively.

For the three months ended September 30, 2011, theatrical product revenues from theatrical film increased due to higher revenues from theatrical films released in the current quarter of $422 million and higher carryover revenues from releases in prior periods of $39 million. Six theatrical films were released in the third quarter of 2011 as compared to seven in the prior year quarter. For the nine months ended September 30, 2011, theatrical product revenues from theatrical film increased due to higher revenues from theatrical films released in the first nine months of 2011 of $416 million, partially offset by lower carryover revenues from releases in prior periods of $144 million. Sixteen theatrical films were released in the first nine months of 2011 as compared to 18 in the first nine months of 2010.

Theatrical product revenues from home video and electronic delivery for the three months ended September 30, 2011 decreased due to lower revenues from current quarter releases of $136 million, partially offset by higher carryover revenues from releases in prior periods and catalog revenues of $23 million. There were two releases in the current quarter as compared to three in the prior year quarter. For the nine months ended September 30, 2011, theatrical product revenues from home video and electronic delivery decreased due to lower revenues from current year-to-date releases in the first nine months of 2011 of $168 million, partially offset by higher carryover revenues from releases in prior periods and catalog revenues of $58 million. There were 13 releases in the first nine months of 2011 as compared to 18 in the first nine months of 2010.

Theatrical product revenues from television licensing decreased for the three and nine months ended September 30, 2011 due primarily to the quantity and mix of availabilities.

The increase in television product licensing fees for the three and nine months ended September 30, 2011 was primarily due to higher revenues from worldwide syndication.

Television product revenues from home video and electronic delivery decreased for the three and nine months ended September 30, 2011 due primarily to the timing and mix of product. In addition, for the three and nine months ended September 30, 2010, television product revenues from home video and electronic delivery included the positive effect of a distribution agreement that the Company entered into in the third quarter of 2010 relating to a slate of catalog television shows.

For the three months ended September 30, 2011, other content revenues were flat. For the nine months ended September 30, 2011, other content revenues increased primarily due to higher revenues from interactive videogames released in the first nine months of 2011.

The components of Costs of revenues for the Filmed Entertainment segment are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Film costs	$ 1,428	$ 1,264	13%	$ 3,831	$ 3,568	7%
Print and advertising costs	548	580	(6%)	1,581	1,540	3%
Other, including merchandise and related costs	234	235	-	785	679	16%
Costs of revenues[(a)]	$ 2,210	$ 2,079	6%	$ 6,197	$ 5,787	7%

[a] Costs of revenues exclude depreciation.

Costs of revenues for the three months ended September 30, 2011 increased due to higher film costs, partially offset by lower print and advertising costs. Costs of revenues for the nine months ended September 30, 2011 increased due to

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increases in film costs, other costs and print and advertising costs. Film costs and print and advertising costs for the three and nine months ended September 30, 2011 changed mainly due to the mix of product released. Included in film costs are theatrical film valuation adjustments as a result of revisions to estimates of ultimate revenue for certain theatrical films. For the three and nine months ended September 30, 2011, there was a reversal of theatrical film valuation adjustments of $21 million and net theatrical film valuation adjustments of $29 million, respectively, as compared to theatrical film valuation adjustments of $29 million for both the three and nine months ended September 30, 2010. Other costs increased for the nine months ended September 30, 2011 primarily due to higher distribution costs mainly associated with the increase in interactive videogame sales.

The increase in Selling, general and administrative expenses for the three and nine months ended September 30, 2011 was primarily due to higher costs associated with new business initiatives and acquisitions of $17 million and $49 million, respectively, and higher distribution fees of $12 million and $34 million, respectively, primarily associated with certain videogames and international theatrical releases.

As previously noted under Transactions and Other Items Affecting Comparability, the results for the three and nine months ended September 30, 2011 included $1 million and $12 million, respectively, of noncash impairments of capitalized software costs as well as $3 million of other miscellaneous noncash asset impairments for both the three and nine months ended September 30, 2011. The results for the three and nine months ended September 30, 2010 included a $9 million noncash impairment of intangible assets related to the termination of a videogames licensing relationship. In addition, the Filmed Entertainment segment incurred $11 million and $33 million of Restructuring and severance costs for the three and nine months ended September 30, 2011, respectively, and expects to incur additional Restructuring and severance costs of approximately $20 million for the remainder of the year.

The increase in Operating Income for the three and nine months ended September 30, 2011 was primarily due to higher revenues, partially offset by higher Costs of revenues and Selling, general and administrative expenses.

Publishing. Revenues and Operating Income of the Publishing segment for the three and nine months ended September 30, 2011 and 2010 are as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Revenues:						
Subscription	$ 316	$ 318	(1%)	$ 939	$ 951	(1%)
Advertising	462	478	(3%)	1,372	1,382	(1%)
Content	15	14	7%	56	44	27%
Other	96	91	5%	266	242	10%
Total revenues	889	901	(1%)	2,633	2,619	1%
Costs of revenues[a]	(359)	(340)	6%	(1,025)	(990)	4%
Selling, general and administrative[a]	(367)	(370)	(1%)	(1,129)	(1,149)	(2%)
Restructuring and severance costs	(3)	(14)	(79%)	(15)	(22)	(32%)
Depreciation	(25)	(26)	(4%)	(76)	(82)	(7%)
Amortization	(11)	(10)	10%	(32)	(32)	-
Operating Income	$ 124	$ 141	(12%)	$ 356	$ 344	3%

[a] Costs of revenues and Selling, general and administrative expenses exclude depreciation.

For the three and nine months ended September 30, 2011, Subscription revenues were essentially flat.

For the three and nine months ended September 30, 2011, Advertising revenues decreased primarily driven by lower domestic print advertising revenues of $15 million and $3 million, respectively, and lower digital advertising revenues of $8 million and $17 million, respectively, which included the negative impact of the transfer of management of *SI.com* and

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Golf.com to Turner in the fourth quarter of 2010. These decreases were partially offset by higher custom publishing revenues of $3 million and $10 million, respectively, for the three and nine months ended September 30, 2011.

The increase in Other revenues for the three and nine months ended September 30, 2011 was due to the license fee for *SI.com* and *Golf.com* received from Turner following the transfer of the websites management to Turner.

The components of Costs of revenues for the Publishing segment are as follows (millions):

	0000000000	0000000000	0000000000	0000000000	0000000000	0000000000
	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Production costs	$ 208	$ 194	7%	$ 610	$ 575	6%
Editorial costs	123	119	3%	355	351	1%
Other	28	27	4%	60	64	(6%)
Costs of revenues[(a)]	$ 359	$ 340	6%	$ 1,025	$ 990	4%

(a) Costs of revenues exclude depreciation.

For the three and nine months ended September 30, 2011, Costs of revenues increased 6% and 4%, respectively, primarily due to higher production costs, which largely reflected higher paper costs.

For the three and nine months ended September 30, 2011, Selling, general and administrative expenses were essentially flat compared to the three and nine months ended September 30, 2010.

Operating Income decreased for the three months ended September 30, 2011 due primarily to higher Costs of revenues and lower revenues. Operating Income increased for the nine months ended September 30, 2011 due primarily to higher revenues, partially offset by an increase in Costs of revenues.

As discussed in more detail in Note 1 to the Company s consolidated financial statements in the 2010 Form 10-K, goodwill and indefinite-lived intangible assets, primarily certain trademarks and brand names, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. As of December 31, 2010, the fair values of the Time Inc. reporting unit and certain Time Inc. tradenames were within 10% of their respective book values. In the fourth quarter of 2011, the Company will perform its annual impairment review of goodwill and indefinite-lived intangible assets. No interim impairment analyses of the Company s goodwill and indefinite-lived intangible assets have been required in 2011. If current economic conditions worsen, it is possible that the book values of the Time Inc. reporting unit and certain of its tradenames will exceed their respective fair values, which may result in the Company recognizing a noncash impairment in the fourth quarter of 2011 that could be material.

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Corporate. Operating Loss of the Corporate segment for the three and nine months ended September 30, 2011 and 2010 was as follows (millions):

	Three Months Ended			Nine Months Ended		
	9/30/11	9/30/10	% Change	9/30/11	9/30/10	% Change
Selling, general and administrative[(a)]	$ (75)	$ (77)	(3%)	$ (238)	$ (256)	(7%)
Restructuring and severance costs	-	-	-	(2)	-	NM
Depreciation	(7)	(9)	(22%)	(21)	(28)	(25%)
Operating Loss	$ (82)	$ (86)	(5%)	$ (261)	$ (284)	(8%)

(a) Selling, general and administrative expenses exclude depreciation.

Operating Loss decreased for the three and nine months ended September 30, 2011 compared to the prior year due primarily to lower depreciation expense and for the nine months ended September 30, 2011 also due to lower legal and other professional fees of $15 million related to the defense of former employees in various lawsuits.

FINANCIAL CONDITION AND LIQUIDITY

Management believes that cash generated by or available to the Company should be sufficient to fund its capital and liquidity needs for the foreseeable future, including quarterly dividend payments, the purchase of common stock under the Company s repurchase program and scheduled debt repayments. Time Warner s sources of cash include Cash provided by operations, Cash and equivalents on hand, available borrowing capacity under its committed credit facilities and commercial paper program and access to capital markets. Time Warner s unused committed capacity at September 30, 2011 was $8.313 billion, which included $3.245 billion of Cash and equivalents.

Current Financial Condition

At September 30, 2011, Time Warner had $18.533 billion of debt, $3.245 billion of Cash and equivalents (net debt, defined as total debt less Cash and equivalents, of $15.288 billion) and $31.166 billion of Shareholders equity, compared to $16.549 billion of debt, $3.663 billion of Cash and equivalents (net debt of $12.886 billion) and $32.940 billion of Shareholders equity at December 31, 2010.

The following table shows the significant items contributing to the increase in net debt from December 31, 2010 to September 30, 2011 (millions):

		0000000000
Balance at December 31, 2010	$	12,886
Cash provided by operations from continuing operations		(2,146)
Capital expenditures		511
Dividends paid to common stockholders		761
Investments and acquisitions, net		312
Proceeds from the sale of investments		(39)
Repurchases of common stock		3,083
All other, net		(80)
Balance at September 30, 2011	$	15,288

On January 25, 2011, Time Warner s Board of Directors increased the amount remaining on the Company s common stock repurchase program to $5.0 billion for share repurchases beginning January 1, 2011. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. The size and timing of these purchases are based on a number of factors, including price and business and market conditions. From January 1, 2011 through October 28, 2011, the Company repurchased 110 million shares of common stock for $3.744

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billion pursuant to trading programs under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Cash Flows

Cash and equivalents decreased by $418 million and $724 million for the nine months ended September 30, 2011 and 2010, respectively. Components of these changes are discussed below in more detail.

Operating Activities from Continuing Operations

Details of Cash provided by operations from continuing operations are as follows (millions):

	0000000000	0000000000
	Nine Months Ended	
	9/30/11	**9/30/10**
Operating Income	$ 4,132	$ 4,004
Depreciation and amortization	689	690
Net interest payments[(a)]	(776)	(743)
Net income taxes paid[(b)]	(677)	(851)
All other, net, including working capital changes	(1,222)	(781)
Cash provided by operations from continuing operations	$ 2,146	$ 2,319

(a) Includes cash interest received of $29 million and $19 million for the nine months ended September 30, 2011 and 2010, respectively.
(b) Includes income tax refunds received of $86 million and $80 million for the nine months ended September 30, 2011 and 2010, respectively, and payments to TWC of $0 and $87 million for the nine months ended September 30, 2011 and 2010, respectively, pursuant to an income tax sharing arrangement.

Cash provided by operations from continuing operations decreased to $2.146 billion for the nine months ended September 30, 2011 from $2.319 billion for the nine months ended September 30, 2010. The decrease in Cash provided by operations from continuing operations was related primarily to cash used by working capital, reflecting higher production spending, partially offset by lower income taxes paid and higher Operating Income.

Investing Activities from Continuing Operations

Details of Cash used by investing activities from continuing operations are as follows (millions):

0000000000 0000000000

	Nine Months Ended 9/30/11	9/30/10
Investments in available-for-sale securities	$ (3)	$ (13)
Investments and acquisitions, net of cash acquired:		
HBO LAG	(65)	(217)
HBO CE	-	(136)
All other	(244)	(239)
Capital expenditures	(511)	(337)
Proceeds from the sale of available-for-sale securities	8	-
All other investment and sale proceeds	31	116
Cash used by investing activities from continuing operations	$ (784)	$ (826)

Cash used by investing activities from continuing operations decreased to $784 million for the nine months ended September 30, 2011 from $826 million for the nine months ended September 30, 2010. The decrease was primarily the result of lower investments and acquisitions spending, partially offset by higher Capital expenditures and lower investment and sale proceeds.

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Financing Activities from Continuing Operations

Details of Cash used by financing activities from continuing operations are as follows (millions):

	0000000000	0000000000
	Nine Months Ended	
	9/30/11	**9/30/10**
Borrowings	$ 2,029	$ 5,220
Debt repayments	(60)	(4,856)
Proceeds from the exercise of stock options	174	85
Excess tax benefit on stock options	19	5
Principal payments on capital leases	(9)	(11)
Repurchases of common stock	(3,083)	(1,516)
Dividends paid	(761)	(733)
Other financing activities	(88)	(388)
Cash used by financing activities from continuing operations	$ (1,779)	$ (2,194)

Cash used by financing activities from continuing operations decreased to $1.779 billion for the nine months ended September 30, 2011 from $2.194 billion for the nine months ended September 30, 2010. The decrease in Cash used by financing activities from continuing operations was primarily due to a decrease in net debt borrowings, less Cash used by other financing activities and higher Proceeds from the exercise of stock options, partially offset by an increase in Repurchases of common stock made in connection with the Company s common stock repurchase program. Other financing activities for the nine months ended September 30, 2010 include premiums and transaction costs paid in connection with debt redemptions in 2010.

Cash Flows from Discontinued Operations

Cash used by discontinued operations was $1 million and $23 million for the nine months ended September 30, 2011 and 2010, respectively.

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Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Committed Financial Capacity

At September 30, 2011, Time Warner had total committed capacity, defined as maximum available borrowings under various existing debt arrangements and cash and short-term investments, of $26.912 billion. Of this committed capacity, $8.313 billion was unused and $18.533 billion was outstanding as debt. At September 30, 2011, total committed capacity, outstanding letters of credit, outstanding debt and total unused committed capacity were as follows (millions):

	0000000000 Committed Capacity [a]	0000000000 Letters of Credit [b]	0000000000 Outstanding Debt [c]	0000000000 Unused Committed Capacity
Cash and equivalents	$ 3,245	$ -	$ -	$ 3,245
Revolving bank credit agreement and commercial paper program	5,000	3	-	4,997
Fixed-rate public debt	18,260	-	18,260	-
Other obligations[d]	407	63	273	71
Total	$ 26,912	$ 66	$ 18,533	$ 8,313

(a) The revolving bank credit agreement, commercial paper program and public debt of the Company rank pari passu with the senior debt of the respective obligors thereon. Th">392

			$419
Self-insurance reserves	255		267
Other	428		452
Total other current liabilities	$	1,075	$ 1,138

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NOTE 7: DEBT

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

	June 28, 2014	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	—	100
Other	54	80
Total debt	1,825	2,408
Less current debt	41	513
Total long-term debt	$1,784	$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 June 28, 2014, was $959 million. At June 28, 2014, we had outstanding letters of credit issued under this facility totaling $41 million, none of which were drawn upon. We had an additional $145 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.

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.

In June 2014, we amended this facility to, among other things, permit the consummation of certain debt financings related to our tender offer to acquire all of the issued and outstanding shares of common stock of Hillshire.

Bridge Facility

In the third quarter of fiscal 2014, we entered into a fully committed 364-day unsecured bridge facility in an aggregate principal amount of $8.2 billion to be available to fund the Hillshire acquisition. The bridge facility commitment was modified in July 2014, which is further described in Note 16: Subsequent Events. As of June 28, 2014, we paid $42 million of costs associated with the bridge facility. These costs were capitalized and we expense them over the facility's estimated life, which is generally through the date permanent financing is expected and the bridge facility is reduced or eliminated. Accordingly, we recorded $22 million of expense in the third quarter of fiscal 2014, which is reflected in Other, net in the Consolidated Condensed Statements of Income.

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. Simultaneously with the settlement of the conversion premium, we received 11.7 million shares of our Class A stock from the call options.

The warrants were settled on various dates from January 2014 through April 2014, resulting in the issuance of 8.9 million shares of Class A stock through March 2014 and 2.8 million shares of Class A stock in April 2014.

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. As further described in Note 2: Acquisitions and Dispositions, in the third quarter of fiscal 2014, we sold our interest in Dynamic Fuels, which resulted in the deconsolidation of its assets and liabilities including these bonds.
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; 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 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 June 28, 2014.
NOTE 8: INCOME TAXES
The effective tax rate for continuing operations was 16.8% and 35.4% for the third quarter of fiscal 2014 and 2013, respectively, and 30.4% and 32.6% for the nine months of fiscal 2014 and 2013, respectively. The effective tax rates for the third quarter and nine months of fiscal 2014 and fiscal 2013 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, a benefit resulting from the expiration of statutes of limitations reduced the effective tax rate for the third quarter and nine months of fiscal 2014 by 12.8% and 3.8%, respectively.
Unrecognized tax benefits were $137 million and $175 million at June 28, 2014, and September 28, 2013, respectively. The amount of unrecognized tax benefits, if recognized, that would impact our effective tax rate was $111 million and $149 million at June 28, 2014, and September 28, 2013, respectively.
We classify interest and penalties on unrecognized tax benefits as income tax expense. At June 28, 2014, and September 28, 2013, before tax benefits, we had $61 million and $63 million, respectively, of accrued interest and penalties on unrecognized tax benefits.
We are subject to income tax assessments for U.S. federal income taxes for fiscal years 2011 through 2013. We are also subject to income tax assessments by major state and foreign jurisdictions for fiscal years 2003 through 2013 and 2002 through 2013, respectively. We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease by as much as $30 million primarily due to expiration of statutes of limitations in various jurisdictions.
NOTE 9: OTHER INCOME AND CHARGES
During the nine months of fiscal 2014, we recorded $7 million of equity earnings in joint ventures, $4 million in net foreign currency exchange gains, $6 million of other than temporary impairment related to an available-for-sale

security and $22 million of costs associated with bridge financing facilities for the Hillshire acquisition, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

During the nine months of fiscal 2013, we recorded a $19 million currency translation adjustment gain recognized in conjunction with the receipt of proceeds constituting the final resolution of our investment in Canada, which was 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		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Numerator:				
Income from continuing operations	$258	$249	$720	$589
Less: Net income (loss) attributable to noncontrolling interests	(2)	(4)	(7)	2
Net income from continuing operations attributable to Tyson	260	253	727	587
Less dividends declared:				
Class A	21	14	69	74
Class B	5	3	16	16
Undistributed earnings	$234	$236	$642	$497
Class A undistributed earnings	$190	$193	$522	$406
Class B undistributed earnings	44	43	120	91
Total undistributed earnings	$234	$236	$642	$497
Denominator:				
Denominator for basic earnings per share:				
Class A weighted average shares	280	283	275	284
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70	70	70
Effect of dilutive securities:				
Stock options and restricted stock	6	5	5	5
Convertible 2013 Notes	—	11	—	7
Warrants	—	—	5	—
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	356	369	355	366
Net Income Per Share from Continuing Operations Attributable to Tyson:				
Class A Basic	$0.75	$0.73	$2.15	$1.69
Class B Basic	$0.68	$0.66	$1.94	$1.52
Diluted	$0.73	$0.69	$2.05	$1.61
Net Income Per Share Attributable to Tyson:				
Class A Basic	$0.75	$0.72	$2.15	$1.49
Class B Basic	$0.68	$0.64	$1.94	$1.34
Diluted	$0.73	$0.68	$2.05	$1.42

We had no stock-based compensation shares that were antidilutive for both the three months ended June 28, 2014 and June 29, 2013. Approximately 4 million of our stock-based compensation shares were antidilutive for both the nine months ended June 28, 2014 and June 29, 2013. 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 June 28, 2014.
We recognize all derivative instruments as either assets or liabilities at fair value in the Consolidated Condensed Balance Sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument based upon the exposure being hedged (i.e., cash flow hedge or fair value hedge). We qualify, or designate, a derivative financial instrument as a hedge when contract terms closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. If a derivative instrument is accounted for as a hedge, depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) (OCI) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized in earnings immediately. We designate certain forward contracts as follows:

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

Cash flow hedges
Derivative instruments, such as futures and options, are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. We do not purchase forward and option commodity contracts in excess of our physical consumption requirements and generally do not hedge forecasted transactions beyond 18 months. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of Other Comprehensive Income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three and nine months ended June 28, 2014, and June 29, 2013.
We had the following aggregated notional values of outstanding forward and option contracts accounted for as cash flow hedges (in millions, except soy meal tons):

	Metric	June 28, 2014	September 28, 2013
Commodity:			
Corn	Bushels	—	5

Soy meal	Tons	151,200	96,800
Foreign Currency	United States dollar	$1	$60

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As of June 28, 2014, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $6 million related to grains. During the three and nine months ended June 28, 2014, and June 29, 2013, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges due to the probability the original forecasted transaction would not occur by the end of the originally specified time period or within the additional period of time allowed by generally accepted accounting principles.

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	
	June 28, 2014	June 29, 2013		June 28, 2014	June 29, 2013
Cash Flow Hedge – Derivatives designated as hedging instruments:					
Commodity contracts	$(7)	$(5)	Cost of Sales	$1	$(2)
Foreign exchange contracts	—	3	Other Income/Expense	—	(2)
Total	$(7)	$(2)		$1	$(4)

	Gain/(Loss) Recognized in OCI On Derivatives Nine Months Ended		Consolidated Condensed Statements of Income Classification	Gain/(Loss) Reclassified from OCI to Earnings Nine Months Ended	
	June 28, 2014	June 29, 2013		June 28, 2014	June 29, 2013
Cash Flow Hedge – Derivatives designated as hedging instruments:					
Commodity contracts	$(1)	$(28)	Cost of Sales	$(2)	$(5)
Foreign exchange contracts	(1)	(2)	Other Income/Expense	—	(4)
Total	$(2)	$(30)		$(2)	$(9)

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	June 28, 2014	September 28, 2013
Commodity:			
Live Cattle	Pounds	434	209
Lean Hogs	Pounds	348	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	Three Months Ended	Nine Months Ended

	Classification	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Gain/(Loss) on forwards	Cost of Sales	$(56)	$11	$(96)	$26
Gain/(Loss) on purchase contract	Cost of Sales	56	(11)	96	(26)

Ineffectiveness related to our fair value hedges was not significant for the three and nine months ended June 28, 2014, and June 29, 2013.

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Undesignated positions

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

The objective of our undesignated grains, livestock and energy commodity positions is to reduce the variability of cash flows associated with the forecasted purchase of certain grains, energy and livestock inputs to our production processes. We also enter into certain forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs at fixed prices. The fixed price sales contracts lock in the proceeds from a future sale and the fixed cattle and hog purchases lock in the cost. However, the cost of the livestock and the related boxed beef and boxed pork market prices at the time of the sale or purchase could vary from this fixed price. As we enter into fixed forward sales of boxed beef and boxed pork and forward purchases of cattle and hogs, we also enter into the appropriate number of livestock options and futures positions to mitigate a portion of this risk. Changes in market value of the open livestock options and futures positions are marked to market and reported in earnings at each reporting date, even though the economic impact of our fixed prices being above or below the market price is only realized at the time of sale or purchase. These positions generally do not qualify for hedge treatment due to location basis differences between the commodity exchanges and the actual locations when we purchase the commodities.

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	June 28, 2014	September 28, 2013
Commodity:			
Corn	Bushels	3	69
Soy Meal	Tons	82,800	204,600
Soy Oil	Pounds	27	11
Live Cattle	Pounds	109	60
Lean Hogs	Pounds	74	159
Foreign Currency	United States dollars	$92	$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 June 28, 2014	Gain/(Loss) Recognized in Earnings Three Months Ended June 29, 2013	Gain/(Loss) Recognized in Earnings Nine Months Ended June 28, 2014	Gain/(Loss) Recognized in Earnings Nine Months Ended June 29, 2013
Derivatives not designated as hedging instruments:					
Commodity contracts	Sales	$25	$(7)	$57	$(19)
Commodity contracts	Cost of Sales	(47)	(8)	(89)	(15)
Foreign exchange contracts	Other Income/Expense	3	(2)	4	—
Total		$(19)	$(17)	$(28)	$(34)

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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	
	June 28, 2014	September 28, 2013
Derivative Assets:		
Derivatives designated as hedging instruments:		
Commodity contracts	$5	$4
Foreign exchange contracts	—	1
Total derivative assets – designated	5	5
Derivatives not designated as hedging instruments:		
Commodity contracts	38	25
Foreign exchange contracts	3	2
Total derivative assets – not designated	41	27
Total derivative assets	$46	$32
Derivative Liabilities:		
Derivatives designated as hedging instruments:		
Commodity contracts	$121	$29
Foreign exchange contracts	—	—
Total derivative liabilities – designated	121	29
Derivatives not designated as hedging instruments:		
Commodity contracts	68	72
Foreign exchange contracts	—	1
Total derivative liabilities – not designated	68	73
Total derivative liabilities	$189	$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):

June 28, 2014	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Commodity Derivatives	$—	$43	$—	$(11)	$32
Foreign Exchange Forward Contracts	—	3	—	—	3
Available-for-Sale Securities:					
Current	—	2	—	—	2
Non-current	—	28	65	—	93
Deferred Compensation Assets	15	220	—	—	235
Total Assets	$15	$296	$65	$(11)	$365
Liabilities:					
Commodity Derivatives	$—	$189	$—	$(183)	$6
Foreign Exchange Forward Contracts	—	—	—	—	—
Total Liabilities	$—	$189	$—	$(183)	$6

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 June 28, 2014, and September 28, 2013, we had posted with various counterparties $172 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):

	Nine Months Ended	
	June 28, 2014	June 29, 2013
Balance at beginning of year	$65	$86
Total realized and unrealized gains (losses):		
Included in earnings	—	1
Included in other comprehensive income (loss)	—	(1)
Purchases	18	14
Issuances	—	—
Settlements	(18)	(35)
Balance at end of period	$65	$65
Total gains (losses) for the nine-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.

We have 0.8 million shares of Syntroleum Corporation common stock. At June 28, 2014, we classified the shares as Level 2 as the fair value could be corroborated based on observable market data. At September 28, 2013, we classified the shares as Level 1 as the fair value was based on unadjusted quoted prices available in active markets. We record the shares in Other Assets in the Consolidated Condensed Balance Sheet. Additionally, at September 28, 2013, we had 0.4 million of Syntroleum Corporation warrants. We classified the warrants as Level 2 as the fair value could be corroborated based on observable market data and was recorded in Other Assets in the Consolidated Condensed Balance Sheet.

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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):

	June 28, 2014			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	$26	$27	$1	$25	$25	$—
Corporate and Asset-Backed	65	65	—	64	65	1
Equity Securities:						
Common Stock and Warrants (a)	3	3	—	9	4	(5)

(a) At June 28, 2014, the amortized cost basis for Equity Securities had been reduced by accumulated other than temporary impairment of approximately $6 million.

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 $6 million of other than temporary impairment for the nine months ended June 28, 2014, which is recorded in the Consolidated Condensed Statements of Income in Other, net. No other than temporary losses were deferred in OCI as of June 28, 2014, and September 28, 2013.

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. During the third quarter of fiscal 2014, we recorded a $49 million impairment charge related to the planned closure of three Prepared Foods plants. Our valuation of these assets incorporated unobservable Level 3 inputs.

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):

	June 28, 2014		September 28, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total Debt	$1,963	$1,825	$2,541	$2,408

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NOTE 13: 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						Nine Months Ended					
	June 28, 2014			June 29, 2013			June 28, 2014			June 29, 2013		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax	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)	$2	$(1)	$1	$2	$(1)	$1	$5	$(2)	$3
(Gain) loss reclassified to Other Income/Expense	—	—	—	2	—	2	—	—	—	4	(1)	3
Unrealized gain (loss)	(7)	3	(4)	(2)	1	(1)	(2)	1	(1)	(30)	12	(18)
Investments:												
(Gain) loss reclassified to Other Income/Expense	—	—	—	—	—	—	6	(2)	4	(1)	—	(1)
Unrealized gain (loss)	—	—	—	1	—	1	(1)	—	(1)	(2)	1	(1)
Currency translation:												
Translation gain reclassified to Other Income/Expense	—	—	—	—	—	—	—	—	—	(19)	(1)	(20)
Translation adjustment	10	2	12	(33)	—	(33)	5	2	7	(29)	—	(29)
Postretirement benefits	1	(1)	—	1	—	1	3	(1)	2	4	—	4
Total Other Comprehensive Income (Loss)	$3	$4	$7	$(29)	$—	$(29)	$13	$(1)	$12	$(68)	$9	$(59)

NOTE 14: SEGMENT REPORTING

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

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

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

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

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

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

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International: International includes our foreign operations primarily related to raising and processing live chickens into fresh, frozen and value-added chicken products in Brazil, China, India and Mexico. Products are marketed in each respective country to food retailers, foodservice distributors, restaurant operators, hotel chains, noncommercial foodservice establishments and live markets, as well as to other international export markets.
The results from Dynamic Fuels are included in Other. We allocate expenses related to corporate activities to the segments, except for third party acquisition related transaction fees which are included in Other.
Information on segments and a reconciliation to income from continuing operations before income taxes are as follows (in millions):

	Three Months Ended				Nine Months Ended			
	June 28, 2014		June 29, 2013		June 28, 2014		June 29, 2013	
Sales:								
Chicken	$2,829		$2,820		$8,327		$8,148	
Beef	4,189		3,723		11,748		10,655	
Pork	1,766		1,332		4,677		4,006	
Prepared Foods	901		797		2,669		2,441	
International	365		343		1,020		1,001	
Other	—		—		—		47	
Intersegment Sales	(368	)	(284	)	(966	)	(818	)
Total Sales	$9,682		$8,731		$27,475		$25,480	
Operating Income (Loss):								
Chicken	$195		$215		$682		$471	
Beef	101		114		194		134	
Pork	128		67		356		264	
Prepared Foods	(50	) (a)	24		(13	) (a)	85	
International	(15	)	5		(73	)	—	
Other	(8	) (b)	(6	)	(22	) (b)	5	
Total Operating Income	351		419		1,124		959	
Total Other (Income) Expense	41	(b)	34		90	(b)	85	(c)
Income from Continuing Operations before Income Taxes	$310		$385		$1,034		$874	

(a) Includes $49 million impairment charge related to the planned closure of three Prepared Foods plants.
(b) Operating income in Other includes $7 million related to third party transaction fees and Other (Income) Expense includes $22 million related to costs associated with bridge financing facilities, both incurred as part of the Hillshire acquisition.
(c) Includes $19 million related to the recognized currency translation adjustment gain.

The Chicken segment had sales of $2 million and $5 million in the third quarter of fiscal 2014 and 2013, respectively, and sales of $6 million and $13 million in the nine months of fiscal 2014 and 2013, respectively, from transactions with other operating segments of the Company. The Beef segment had sales of $83 million and $59 million in the third quarter of fiscal 2014 and 2013, respectively, and sales of $213 million and $156 million in the nine months of fiscal 2014 and 2013, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of $283 million and $220 million in the third quarter of fiscal 2014 and 2013, respectively, and sales of $747 million and $649 million in the nine months of fiscal 2014 and 2013, 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 15: COMMITMENTS AND CONTINGENCIES

Commitments

We guarantee obligations of certain outside third parties, consisting primarily of leases and grower loans, which are substantially collateralized by the underlying assets. Terms of the underlying debt cover periods up to ten years, and the maximum potential amount of future payments as of June 28, 2014, was $55 million. We also maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of the underlying leased assets at the end of the term of the lease. The remaining terms of the lease maturities cover periods over the next 13 years. The maximum potential amount of the residual value guarantees is $52 million, of which $46 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 June 28, 2014, and September 28, 2013, 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 June 28, 2014, was approximately $310 million. The total receivables under these programs were $19 million and $44 million at June 28, 2014, and September 28, 2013, respectively, and 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 recorded an allowance for these programs’ estimated uncollectible receivables of $9 million and $15 million at June 28, 2014, and September 28, 2013, respectively.

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.

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There are eleven lawsuits against our beef and pork subsidiary, Tyson Fresh Meats Inc., 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 (FLSA) and various state laws. These lawsuits involve employees from our plants in Garden City, Kansas (Garcia, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., D. Kansas, May 15, 2006); Storm Lake, Iowa (Bouaphakeo (f/k/a Sharp), et al. v. Tyson Foods, Inc., N.D. Iowa, February 6, 2007); Columbus Junction, Iowa (Guyton (f/k/a Robinson), et al. v. Tyson Foods, Inc., d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, September 12, 2007); Madison, Nebraska (Acosta, et al. v Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., D. Nebraska, February 29, 2008); Dakota City, Nebraska (Gomez, et al. v. Tyson Foods, Inc., D. Nebraska, January 16, 2008); Perry and Waterloo, Iowa (Edwards, et al. v. Tyson Foods, Inc. d.b.a Tyson Fresh Meats, Inc., S.D. Iowa, March 20, 2008); Logansport, Indiana (Carter, et al. v. Tyson Foods, Inc. and Tyson Fresh Meats, Inc., N.D. Indiana, April 29, 2008); Goodlettsville, Tennessee (Abadeer v. Tyson Foods, Inc., and Tyson Fresh Meats, Inc., M.D. Tennessee, February 6, 2009); Emporia, Kansas (Abdiaziz, et al. v. Tyson Foods, Inc., Tyson Fresh Meats, Inc., D. Kansas, September 30, 2011); and Joslin, Illinois (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). The actions allege we failed to pay employees for all hours worked, including overtime compensation for the time it takes to change into protective work uniforms, safety equipment and other sanitary and protective clothing worn by employees, and for walking to and from the changing area, work areas and break areas in violation of the FLSA and analogous 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.

- After a trial in the Garcia case, which involves our Garden City, Kansas beef plant, a jury verdict in favor of the plaintiffs was entered on March 17, 2011. Exclusive of pre- and post-judgment interest, attorneys' fees and costs, the jury found violations of federal and state laws for pre- and post-shift work activities and awarded damages in the amount of $503,011. Plaintiffs' counsel filed an application for attorneys' fees and expenses which we contested. On December 7, 2012, the court granted plaintiffs' counsel's application and awarded a total of $3,609,723. We appealed the jury's verdict and trial court's award to the Tenth Circuit Court of Appeals Oral arguments were held on November 18, 2013.
- A jury trial was held in the Bouaphakeo case, which involves 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 have appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals. Oral arguments were held on February 11, 2014.
- A jury trial was held in the Guyton case, which involves our Columbus Junction, Iowa pork plant, which resulted in a jury verdict in favor of Tyson on April 25, 2012. The plaintiffs have appealed to the Eighth Circuit Court of Appeals. Oral arguments were held on February 11, 2014.
- A bench trial was held in the Acosta case, which involves our Madison, Nebraska pork plant, in January 2013. In May 2013 the trial court awarded the plaintiffs $5,733,943 for unpaid overtime wages. Subsequently, the court ordered the class of plaintiffs expanded, and the plaintiffs submitted an updated calculation of $6,258,330 for unpaid overtime wages as reflected by payroll data through May 2013. On January 30, 2014, the trial court entered judgment in favor of the plaintiffs in the amount of $18,774,989. The court denied our post-trial motions, and we appealed to the Eighth Circuit Court of Appeals.
- A jury trial in the Gomez case, which involves our Dakota City, Nebraska beef plant, was held, and the jury found in favor of the plaintiffs on April 3, 2013. On October 2, 2013, the trial court denied the parties' post-trial motions and entered judgment awarding unpaid overtime wages, liquidated damages, and penalties totaling $4,960,787. We appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals.
- The trial court in the Edwards 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.

- The parties in the Carter case, which involves our Logansport, Indiana pork plant, agreed to settle all claims for $950,000. The parties’ joint motion for approval of the settlement was granted on May 9, 2014.
- The trial court in the Abadeer case, which involves our Goodlettsville, Tennessee case-ready beef and pork plant, granted the plaintiffs’ motion for summary judgment in part, finding that certain pre- and post-shift activities were compensable and our non-payment for those activities was willful and not in good faith. The parties subsequently agreed to settle all claims for $7,750,000. The parties' joint motion for approval of settlement was granted.

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On June 19, 2005, the Attorney General and the Secretary of the Environment of the State of Oklahoma filed a complaint in the U.S. District Court for the Northern District of Oklahoma against us, three of our subsidiaries and six other poultry integrators. The complaint, which was subsequently amended, asserts a number of state and federal causes of action including, but not limited to, counts under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Resource Conservation and Recovery Act (RCRA), and state-law public nuisance theories. The amended complaint asserts that defendants and certain contract growers who are not named in the amended complaint polluted the surface waters, groundwater and associated drinking water supplies of the Illinois River Watershed (IRW) through the land application of poultry litter. Oklahoma asserts that this alleged pollution has also caused extensive injury to the environment (including soils and sediments) of the IRW and that the defendants have been unjustly enriched. Oklahoma's claims cover the entire IRW, which encompasses more than one million acres of land and the natural resources (including lakes and waterways) contained therein. Oklahoma seeks wide-ranging relief, including injunctive relief, compensatory damages in excess of $800 million, an unspecified amount in punitive damages and attorneys' fees. We and the other defendants have denied liability, asserted various defenses, and filed a third-party complaint that asserts claims against other persons and entities whose activities may have contributed to the pollution alleged in the amended complaint. The district court has stayed proceedings on the third party complaint pending resolution of Oklahoma's claims against the defendants. On October 31, 2008, the defendants filed a motion to dismiss for failure to join the Cherokee Nation as a required party or, in the alternative, for judgment as a matter of law based on the plaintiffs' lack of standing. This motion was granted in part and denied in part on July 22, 2009. In its ruling, the district court dismissed Oklahoma's claims for cost recovery and for natural resources damages under CERCLA and for unjust enrichment under Oklahoma common law. This ruling also narrowed the scope of Oklahoma's remaining claims by dismissing all damage claims under its causes of action for Oklahoma common law nuisance, federal common law nuisance, and Oklahoma common law trespass, leaving only its claims for injunctive relief for trial. On August 18, 2009, the Court granted partial summary judgment in favor of the defendants on Oklahoma's claims for violations of the Oklahoma Registered Poultry Feeding Operations Act. Oklahoma later voluntarily dismissed the remainder of this claim. On September 2, 2009, the Cherokee Nation filed a motion to intervene in the lawsuit. Its motion to intervene was denied on September 15, 2009, and the Cherokee Nation filed a notice of appeal of that ruling in the Tenth Circuit Court of Appeals on September 17, 2009. A non-jury trial of the case began on September 24, 2009. At the close of Oklahoma's case-in-chief, the Court granted the defendants' motions to dismiss claims based on RCRA, nuisance per se, and health risks related to bacteria. The defense rested its case on January 13, 2010, and closing arguments were held on February 11, 2010. On September 21, 2010, the Court of Appeals affirmed the district court's denial of the Cherokee Nation's motion to intervene. On October 6, 2010, the Cherokee Nation and the State of Oklahoma filed a petition for rehearing or en banc review seeking reconsideration of this ruling. The Court of Appeals denied this petition. The district court has not yet rendered its decision from the trial, which ended in February 2010.

NOTE 16: SUBSEQUENT EVENTS

Hillshire Brands Acquisition

On June 8, 2014, we submitted to Hillshire a unilaterally binding offer to acquire its outstanding stock for $63.00 per share in cash. The offer was accompanied by a definitive agreement and plan of merger (the "Merger Agreement") among Tyson, Merger Sub and Hillshire, which was executed by Tyson and Merger Sub. The offer was contingent upon the termination of the merger agreement between Hillshire and Pinnacle Foods, Inc. ("Pinnacle"), which occurred on July 1, 2014, at which time Hillshire accepted the offer and executed the Merger Agreement. The Merger Agreement required that we pay to or on behalf of Hillshire the termination fee of $163 million due to Pinnacle upon termination of the merger agreement between Hillshire and Pinnacle, which we subsequently paid on July 2, 2014. The transaction is valued at an estimated $8.9 billion, including the assumption of Hillshire's net debt and $163 million termination fee.

On July 16, 2014, pursuant to the Merger Agreement, we commenced a tender offer to purchase all of the issued and outstanding shares of Hillshire common stock at a purchase price of $63.00 per share in cash, without interest. The tender offer is scheduled to expire on August 12, 2014 and is subject to the condition that two-thirds of the outstanding shares of Hillshire common stock shall have been validly tendered prior to the expiration of the tender offer and not withdrawn. The Merger Agreement also contains other customary conditions, including the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to certain conditions and limitations, Hillshire granted Tyson an option to purchase from Hillshire after the successful completion of the tender offer enough additional Hillshire shares so that Tyson will own more than 90% of the outstanding shares of Hillshire common stock, in order to facilitate the completion of the merger through the "short-form" procedures available under Maryland law. Following the consummation of the tender offer, and subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement, the Merger Agreement provides that Merger Sub will merge with and into Hillshire, with Hillshire surviving the merger as our wholly-owned subsidiary. At and following consummation of the merger, any remaining outstanding shares of Hillshire common stock not owned, directly or indirectly, by us, Merger Sub or Hillshire will be converted into the right to receive $63.00 per share in cash, without interest.

We expect to close the acquisition upon the completion of the tender offer, however, there can be no assurance that the acquisition will close at such time.

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Acquisition Financing

In the third quarter of fiscal 2014, we entered into a fully committed 364-day, $8.2 billion unsecured bridge facility. In July 2014, we decreased the bridge facility to $5.7 billion and added a $2.5 billion senior unsecured term loan facility. The committed facilities, together with cash on hand, will be available to fund the Hillshire acquisition, including the payment of related fees and expenses. The lenders are obligated to fund the facilities, subject to customary closing conditions. The bridge facility provides that the commitments will be automatically reduced on a dollar-for-dollar basis by, among other things, the net cash proceeds of certain offerings of debt, equity or equity-linked securities; the committed principal amount of certain term loan facilities; and the net cash proceeds of certain asset sales and will mature on the date that is 364-days after the date on which lenders are obligated to make initial loans under the bridge facility.

Permanent funding for the Hillshire acquisition includes a mix of Class A common stock, tangible equity units, term loans, senior notes, and cash on hand.

Class A Common Stock: On August 5, 2014, we completed the issuance of 23.8 million shares of our Class A common stock for total proceeds, net of underwriting discounts and other estimated expenses, of $873 million. The amount of shares of Class A common stock sold may increase up to 3.6 million shares if the underwriters exercise their over-allotment option, which expires on August 29, 2014.

Tangible Equity Units: On August 5, 2014, we completed the issuance of 30 million, 4.75% tangible equity units. Total proceeds, net of underwriting discounts and other estimated expenses, was $1,454 million. Each tangible equity unit, which has a stated amount of $50, is comprised of a prepaid stock purchase contract and a senior amortizing note due July 15, 2017. The senior amortizing note is payable quarterly and has a stated interest rate of 1.5%. Unless earlier redeemed or settled, each purchase contract will automatically settle on July 15, 2017, and the Company will deliver between a minimum of 31.7 million and a maximum of 39.7 million of the shares, subject to adjustment, based upon the applicable market value of the Class A common stock. Prior to any adjustments, we will deliver the minimum amount of shares upon conversion if our share price is equal to or greater than the conversion price of $47.25 and will deliver the maximum shares upon conversion if our share price is equal to or less than the reference price of $37.80. If our share price upon conversion is between the reference and conversion prices, we will deliver a variable amount of shares between the minimum and maximum amounts. The fair value of the prepaid stock purchase contracts, which is estimated at $1,295 million, will be recorded in Capital in Excess of Par Value, net of its offering expenses. The fair value of the senior amortizing notes, which is estimated at $205 million, will be recorded in debt, of which $65 million is current.

Term Loan Facility: The committed unsecured term loan facility provides for total term loan commitments in an aggregate principal amount of $2,500 million, consisting of a $1,306 million 3-year tranche facility, a $594 million 5-year tranche A facility, and a $600 million 5-year tranche B facility. The principal of the 3-year tranche facility and the 5-year tranche A facility each amortize at 2.5% per quarter. The lenders are obligated to fund the loans upon consummation of the tender offer, subject to customary closing conditions. In addition, we estimate the term loan issuance costs will total approximately $13 million.

Senior Notes Offering: On August 5, 2014, we launched and priced a public offering of senior unsecured notes with an aggregate principal amount of $3,250 million, consisting of $1,000 million due August 2019 (“2019 Notes”), $1,250 million due August 2024 (“2024 Notes”), $500 million due August 2034 (“2034 Notes”), and $500 million due August 2044 ("2044 Notes"). The 2019 Notes, 2024 Notes, 2034 Notes, and 2044 Notes carry interest rates of 2.65%, 3.95%, 4.88% and 5.15%, respectively, with interest payments due semi-annually on August 15 and February 15. After the original issue discounts of $7 million, we expect to receive net proceeds of $3,243 million. In addition, we estimate that the total senior notes offering costs will total approximately $29 million. We expect to close on the senior notes offering on August 8, 2014.

Covenants and Guarantees: The senior notes, term loan facility and bridge facility contain certain covenants which are consistent with our existing covenants that are described in Note 7: Debt. The senior notes, term loan facility and bridge facility are fully guaranteed by TFM Parent, until such date as TFM Parent is released from all of its guarantees of other indebtedness of the Company.

Sale of Brazil and Mexico Chicken Operations

On July 28, 2014, we announced we reached a definitive agreement to sell our chicken production operations in Brazil and Mexico to JBS SA (“JBS”) for $575 million. The all-cash transaction is subject to customary closing conditions and requires necessary government approvals in Brazil and Mexico. We expect to close the sale by the end of calendar 2014. The combined operations of Brazil and Mexico, which are part of our International segment, had annual sales of approximately $1 billion and we expect to realize a net gain upon completion of the transaction. We intend to use the cash receipts to pay down debt.

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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 $1.0 billion revolving credit facility and (ii) the 2016 Notes, at which time TFM Parent's guarantee of the 2022 Notes is permanently released. The following financial information presents condensed consolidating financial statements, which include Tyson Foods, Inc. (TFI Parent); TFM Parent; the Non-Guarantors Subsidiaries (Non-Guarantors) on a combined basis; the elimination entries necessary to consolidate TFI Parent, TFM Parent and the Non-Guarantors; and Tyson Foods, Inc. on a consolidated basis, and is provided as an alternative to providing separate financial statements for the guarantor.

Condensed Consolidating Statement of Income and Comprehensive Income for the three months ended June 28, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$114	$5,807	$4,234	$(473)	$9,682
Cost of Sales	14	5,559	3,945	(473)	9,045
Gross Profit	100	248	289	—	637
Selling, General and Administrative	16	55	215	—	286
Operating Income	84	193	74	—	351
Other (Income) Expense:					
Interest expense, net	23	—	1	—	24
Other, net	22	1	(6)	—	17
Equity in net earnings of subsidiaries	(229)	(18)	—	247	—
Total Other (Income) Expense	(184)	(17)	(5)	247	41
Income from Continuing Operations before Income Taxes	268	210	79	(247)	310
Income Tax Expense	8	62	(18)	—	52
Income from Continuing Operations	260	148	97	(247)	258
Loss from Discontinued Operation, Net of Tax	—	—	—	—	—
Net Income	260	148	97	(247)	258
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	(2)	—	(2)
Net Income Attributable to Tyson	$260	$148	$99	$(247)	$260
Comprehensive Income (Loss)	265	156	106	(262)	265
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	(2)	—	(2)
Comprehensive Income (Loss) Attributable to Tyson	$265	$156	$108	$(262)	$267

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Condensed Consolidating Statement of Income and Comprehensive Income for the three months ended June 29, 2013 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$142	$4,908	$4,081	$(400)	$8,731
Cost of Sales	8	4,679	3,762	(400)	8,049
Gross Profit	134	229	319	—	682
Selling, General and Administrative	19	54	190	—	263
Operating Income	115	175	129	—	419
Other (Income) Expense:					
Interest expense, net	9	15	10	—	34
Other, net	—	(1)	1	—	—
Equity in net earnings of subsidiaries	(181)	(15)	—	196	—
Total Other (Income) Expense	(172)	(1)	11	196	34
Income from Continuing Operations before Income Taxes	287	176	118	(196)	385
Income Tax Expense	38	56	42	—	136
Income from Continuing Operations	249	120	76	(196)	249
Loss from Discontinued Operation, Net of Tax	—	—	(4)	—	(4)
Net Income	249	120	72	(196)	245
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	(4)	—	(4)
Net Income Attributable to Tyson	$249	$120	$76	$(196)	$249
Comprehensive Income (Loss)	216	103	49	(152)	216
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	(4)	—	(4)
Comprehensive Income (Loss) Attributable to Tyson	$216	$103	$53	$(152)	$220

Condensed Consolidating Statement of Income and Comprehensive Income for the nine months ended June 28, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$429	$16,023	$12,380	$(1,357)	$27,475
Cost of Sales	35	15,338	11,486	(1,357)	25,502
Gross Profit	394	685	894	—	1,973
Selling, General and Administrative	67	167	615	—	849
Operating Income	327	518	279	—	1,124
Other (Income) Expense:					
Interest expense, net	13	49	10	—	72
Other, net	29	—	(11)	—	18
Equity in net earnings of subsidiaries	(532)	(30)	—	562	—
Total Other (Income) Expense	(490)	19	(1)	562	90
Income from Continuing Operations before Income Taxes	817	499	280	(562)	1,034
Income Tax Expense	90	158	66	—	314
Income from Continuing Operations	727	341	214	(562)	720

Loss from Discontinued Operation, Net of Tax	—	—	—	—	—
Net Income	727	341	214	(562)	720
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	(7)	—	(7)
Net Income Attributable to Tyson	$727	$341	$221	$(562)	$727
Comprehensive Income (Loss)	732	348	220	(568)	732
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	(7)	—	(7)
Comprehensive Income (Loss) Attributable to Tyson	$732	$348	$227	$(568)	$739

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Condensed Consolidating Statement of Income and Comprehensive Income for the nine months ended June 29, 2013 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Sales	$318	$14,210	$11,957	$(1,005)	$25,480
Cost of Sales	35	13,696	11,065	(1,005)	23,791
Gross Profit	283	514	892	—	1,689
Selling, General and Administrative	51	151	528	—	730
Operating Income	232	363	364	—	959
Other (Income) Expense:					
Interest expense, net	26	46	32	—	104
Other, net	4	(1)	(22)	—	(19)
Equity in net earnings of subsidiaries	(381)	(29)	—	410	—
Total Other (Income) Expense	(351)	16	10	410	85
Income from Continuing Operations before Income Taxes	583	347	354	(410)	874
Income Tax Expense	66	109	110	—	285
Income from Continuing Operations	517	238	244	(410)	589
Loss from Discontinued Operation, Net of Tax	—	—	(70)	—	(70)
Net Income	517	238	174	(410)	519
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	—	2	—	2
Net Income Attributable to Tyson	$517	$238	$172	$(410)	$517
Comprehensive Income (Loss)	460	202	80	(282)	460
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	2	—	2
Comprehensive Income (Loss) Attributable to Tyson	$460	$202	$78	$(282)	$458

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Condensed Consolidating Balance Sheet as of June 28, 2014 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$15	$572	$—	$587
Accounts receivable, net	1	713	910	—	1,624
Inventories	1	1,270	1,790	—	3,061
Other current assets	123	49	245	(176)	241
Total Current Assets	125	2,047	3,517	(176)	5,513
Net Property, Plant and Equipment	30	922	2,989	—	3,941
Goodwill	—	881	1,044	—	1,925
Intangible Assets	—	17	134	—	151
Other Assets	168	149	269	(61)	525
Investment in Subsidiaries	12,456	2,070	—	(14,526)	—
Total Assets	$12,779	$6,086	$7,953	$(14,763)	$12,055
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$—	$—	$41	$—	$41
Accounts payable	38	699	759	—	1,496
Other current liabilities	4,127	308	866	(4,226)	1,075
Total Current Liabilities	4,165	1,007	1,666	(4,226)	2,612
Long-Term Debt	1,771	1	73	(61)	1,784
Deferred Income Taxes	6	76	322	—	404
Other Liabilities	143	156	246	—	545
Total Tyson Shareholders' Equity	6,694	4,846	5,630	(10,476)	6,694
Noncontrolling Interest	—	—	16	—	16
Total Shareholders' Equity	6,694	4,846	5,646	(10,476)	6,710
Total Liabilities and Shareholders' Equity	$12,779	$6,086	$7,953	$(14,763)	$12,055

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Condensed Consolidating Balance Sheet as of September 28, 2013 — in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$—	$21	$1,124	$—	$1,145
Accounts receivable, net	—	571	926	—	1,497
Inventories	—	1,039	1,778	—	2,817
Other current assets	351	88	117	(411)	145
Total Current Assets	351	1,719	3,945	(411)	5,604
Net Property, Plant and Equipment	32	891	3,130	—	4,053
Goodwill	—	881	1,021	—	1,902
Intangible Assets	—	21	117	—	138
Other Assets	895	162	244	(821)	480
Investment in Subsidiaries	11,975	2,035	—	(14,010)	—
Total Assets	$13,253	$5,709	$8,457	$(15,242)	$12,177
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$457	$132	$251	$(327)	$513
Accounts payable	27	575	757	—	1,359
Other current liabilities	4,625	200	901	(4,588)	1,138
Total Current Liabilities	5,109	907	1,909	(4,915)	3,010
Long-Term Debt	1,770	679	241	(795)	1,895
Deferred Income Taxes	24	93	362	—	479
Other Liabilities	149	155	282	(26)	560
Total Tyson Shareholders' Equity	6,201	3,875	5,631	(9,506)	6,201
Noncontrolling Interest	—	—	32	—	32
Total Shareholders' Equity	6,201	3,875	5,663	(9,506)	6,233
Total Liabilities and Shareholders' Equity	$13,253	$5,709	$8,457	$(15,242)	$12,177

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Condensed Consolidating Statement of Cash Flows for the nine months ended June 28, 2014 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$12	$264	$312	$(45)	$543
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(1)	(109)	(327)	—	(437)
(Purchases of)/Proceeds from marketable securities, net	—	—	(1)	—	(1)
Acquisitions, net of cash acquired	—	—	(56)	—	(56)
Other, net	30	1	13	—	44
Cash Provided by (Used for) Investing Activities	29	(108)	(371)	—	(450)
Cash Flows from Financing Activities:					
Net change in debt	(370)	—	(9)	—	(379)
Purchases of Tyson Class A common stock	(286)	—	—	—	(286)
Dividends	(76)	—	(45)	45	(76)
Stock options exercised	61	—	—	—	61
Other, net	26	—	—	—	26
Net change in intercompany balances	604	(162)	(442)	—	—
Cash Provided by (Used for) Financing Activities	(41)	(162)	(496)	45	(654)
Effect of Exchange Rate Change on Cash	—	—	3	—	3
Increase (Decrease) in Cash and Cash Equivalents	—	(6)	(552)	—	(558)
Cash and Cash Equivalents at Beginning of Year	—	21	1,124	—	1,145
Cash and Cash Equivalents at End of Period	$—	$15	$572	$—	$587

Condensed Consolidating Statement of Cash Flows for the nine months ended June 29, 2013 in millions

	TFI Parent	TFM Parent	Non-Guarantors	Eliminations	Total
Cash Provided by (Used for) Operating Activities	$185	$196	$404	$(13)	$772
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(3)	(82)	(340)	—	(425)
(Purchases of)/Proceeds from marketable securities, net	—	(14)	(87)	—	(101)
Acquisitions, net of cash acquired	—	—	(106)	—	(106)
Other, net	(3)	9	30	—	36
Cash Provided by (Used for) Investing Activities	(6)	(87)	(503)		(596)
Cash Flows from Financing Activities:					
Net change in debt	—	—	(21)	—	(21)
Purchases of Tyson Class A common stock	(298)	—	—	—	(298)
Dividends	(87)	—	(13)	13	(87)
Stock options exercised	93	—	—	—	93
Other, net	13	—	—	—	13
Net change in intercompany balances	99	(105)	6	—	—
	(180)	(105)	(28)	13	(300)

Cash Provided by (Used for) Financing Activities					
Effect of Exchange Rate Change on Cash	—	—	(4)	—	(4)
Increase (Decrease) in Cash and Cash Equivalents	(1)	4	(131)	—	(128)
Cash and Cash Equivalents at Beginning of Year	1	9	1,061	—	1,071
Cash and Cash Equivalents at End of Period	$—	$13	$930	$—	$943

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

RESULTS OF OPERATIONS

Description of the Company

We are one of the world's largest meat protein companies and the second-largest food production company in the Fortune 500 with one of the most recognized brand names in the food industry. We produce, distribute and market chicken, beef, pork, prepared foods and related allied products. Some of the key factors influencing our business are customer demand for our products; the ability to maintain and grow relationships with customers and introduce new and innovative products to the marketplace; accessibility of international markets; market prices for our products; the cost and availability of live cattle and hogs, raw materials, feed ingredients; and operating efficiencies of our facilities. Our operations are conducted in five segments: Chicken, Beef, Pork, Prepared Foods and International. During the second quarter of fiscal 2014, we began reporting our International operation as a separate segment, which was previously included in our Chicken segment. Our International segment became a separate reportable segment as a result of changes to our internal financial reporting to align with previously announced executive leadership changes. The International segment includes our foreign operations primarily related to raising and processing live chickens into fresh, frozen and value-added chicken products in Brazil, China, India and Mexico. All periods presented have been reclassified to reflect this change. Beef, Pork, Prepared Foods and Other results were not impacted by this change.

Overview

- General – Our operating results remained strong in the third quarter of fiscal 2014 led by solid earnings in our Pork segment and continued strength in our Chicken and Beef segments, partially offset with negative returns in our Prepared Foods and International segments.
- We continued to execute our strategy of accelerating growth in domestic value-added chicken sales and prepared food sales, innovating products, services and customer insights and cultivating our talent development to support Tyson's growth for the future.
- We also maintained focus on maximizing our margins through margin management and operational efficiency improvements. Margin management improvements occurred in the areas of mix, export sales, price optimization and value-added product initiatives. The operational efficiencies occurred in areas of yields, cost reduction and labor management.
- Market environment – Our Chicken segment delivered solid results in the third quarter of fiscal 2014 driven by favorable domestic market conditions associated with strong demand for our chicken products. Our Beef segment experienced higher fed cattle costs and reduced availability of fed cattle supplies but delivered strong results by maximizing our revenues relative to the rising live cattle markets. Our Pork segment results remained strong in the third quarter of fiscal 2014 due to favorable market conditions associated with lower total pork supplies. Our Prepared Foods segment was challenged by rapidly increasing raw material prices in addition to costs incurred as we continue to invest in our growth platforms. Our International segment experienced losses due to challenging market conditions in China and Brazil.
- Margins – Our total operating margin was 3.6% in the third quarter of fiscal 2014. Operating margins by segment were as follows (Prepared Food segment recorded a $49 million impairment due to the planned closure of three facilities):
  - Chicken – 6.9%
  - Beef – 2.4%
  - Pork – 7.2%
  - Prepared Foods – (5.5)%
  - International – (4.1)%
- Debt and Liquidity – During the third quarter of fiscal 2014 we generated $278 million of operating cash flows. At June 28, 2014, we had approximately $1.5 billion of liquidity, which includes availability under our credit facility and $587 million of cash and cash equivalents.

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in millions, except per share data	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income from continuing operations attributable to Tyson	$260	$253	$727	$587
Net income from continuing operations attributable to Tyson – per diluted share	0.73	0.69	2.05	1.61
Net loss from discontinued operation attributable to Tyson	—	(4)	—	(70)
Net loss from discontinued operation attributable to Tyson – per diluted share	—	(0.01)	—	(0.19)
Net income attributable to Tyson	260	249	727	517
Net income attributable to Tyson – per diluted share	0.73	0.68	2.05	1.42

Third quarter and nine months - Fiscal 2014 - Net income attributable to Tyson included the following items:

- $40 million, or $0.11 per diluted share, related to a gain on an unrecognized tax benefit;
- $49 million, or $0.08 per diluted share, impairment related to the planned closure of three Prepared Foods plants; and
- $29 million, or $0.05 per diluted share, related to Hillshire Brands ("Hillshire") acquisition fees paid to third parties.

Nine months - Fiscal 2013 - Net income attributable to Tyson included the following item:

- $19 million, or $0.05 per diluted share, related to a recognized currency translation adjustment.

Summary of Results

Sales

in millions	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Sales	$9,682	$8,731	$27,475	$25,480
Change in sales volume	2.2 %		2.5 %	
Change in average sales price	8.5 %		5.4 %	
Sales growth	10.9 %		7.8 %	

Third quarter – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales were positively impacted by higher sales volume, which accounted for an increase of $141 million. All segments, with the exception of the Beef segment, had an increase in sales volume.
- Average Sales Price – Sales were positively impacted by higher average sales prices, which accounted for an increase of $810 million. The Beef, Pork and Prepared Foods segments had an increase in average sales price largely due to improved mix and increased pricing associated with rising raw material, cattle and hog costs. These increases were partially offset by a decrease in average sales price in the Chicken and International segments which was driven by lower domestic feed ingredient costs and volatile markets in our International segment.

Nine months – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales were positively impacted by higher sales volume, which accounted for an increase of $503 million. All segments had an increase in sales volume.
- Average Sales Price – Sales were positively impacted by higher average sales prices, which accounted for an increase of approximately $1.5 billion. The Beef, Pork and Prepared Foods segments had an increase in average sales price largely due to continued tight domestic availability of protein, increased pricing associated with rising live and raw material costs, and improved mix. These increases were partially offset by a decrease in average sales price in the Chicken and International segments driven by lower domestic feed ingredient costs and volatile markets in our International segment.

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Cost of Sales

in millions	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cost of sales	$9,045	$8,049	$25,502	$23,791
Gross profit	$637	$682	$1,973	$1,689
Cost of sales as a percentage of sales	93.4 %	92.2 %	92.8 %	93.4 %

Third quarter – Fiscal 2014 vs Fiscal 2013

- Cost of sales increased $996 million. Higher input cost per pound increased cost of sales $876 million and higher sales volume increased cost of sales $120 million.
- The $876 million impact of higher input cost per pound was primarily driven by:
- Increases in live cattle and live hog costs of approximately $490 million and $265 million, respectively.
- Increase in raw material and other input costs in our Prepared Foods segment of approximately $95 million.
- Increase of $49 million from an impairment related to the planned closure of three Prepared Foods plants.
- Decreases in feed costs of approximately $120 million in our Chicken segment and $14 million in our International segment.
- The $120 million impact of higher sales volume was driven by increases in sales volume in all of our segments other than our Beef segment.

Nine months – Fiscal 2014 vs Fiscal 2013

- Cost of sales increased $1.7 billion. Higher input cost per pound increased cost of sales approximately $1.2 billion and higher sales volume increased cost of sales $478 million.
- The $1.2 billion impact of higher input cost per pound was primarily driven by:
- Increases in live cattle and live hog costs of approximately $940 million and $405 million, respectively.
- Increase in raw material and other input costs in our Prepared Foods segment of approximately $160 million.
- Increase of $49 million from an impairment related to the planned closure of three Prepared Foods plants.
- Decreases in feed costs of approximately $460 million in our Chicken segment and $32 million in our International segment.
- The $478 million impact of higher sales volume was driven by increases in sales volume in all of our segments.

Selling, General and Administrative

in millions	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Selling, general and administrative expense	$286	$263	$849	$730
As a percentage of sales	3.0 %	3.0 %	3.1 %	2.9 %

Third quarter – Fiscal 2014 vs Fiscal 2013

- Increase of $8 million related to advertising, sales promotions and commissions.
- Increase of $9 million related to professional fees and charitable contributions
- Increase of $7 million from Hillshire acquisition fees paid to third parties.

Nine months – Fiscal 2014 vs Fiscal 2013

- Increase of $31 million related to employee costs including payroll and stock-based and incentive-based compensation.
- Increase of $43 million related to advertising, sales promotions and commissions.
- Increase of $29 million related to professional fees and charitable contributions
- Increase of $7 million from Hillshire acquisition fees paid to third parties.

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Interest Expense

in millions	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cash interest expense	$24	$29	$73	$88
Non-cash interest expense	1	7	5	21
Total Interest Expense	$25	$36	$78	$109

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

- Cash interest expense includes interest expense related to the coupon rates for senior notes and commitment/letter of credit fees incurred on our revolving credit facilities. The decrease is due to a lower average debt balance compared to the same period in fiscal 2013 as our 2013 Notes were paid off and retired on October 15, 2013.
- Non-cash interest expense primarily includes interest related to the amortization of debt issuance costs and discounts/premiums on note issuances. The decrease is due to lower amortization of debt issuance costs and discounts compared to the same period in fiscal 2013 as our 2013 Notes were paid off and retired on October 15, 2013.

Other (Income) Expense, net

in millions	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	$17	$—	$18	$(19)

Nine months – Fiscal 2014

- Includes an expense of $6 million related to the impairment of an equity security investment and $22 million of costs associated with bridge financing facilities for the Hillshire acquisition, which were partially offset by income of $11 million of equity earnings in joint ventures and foreign currency exchange gains.

Nine months - Fiscal 2013

- Included $19 million related to a currency translation adjustment gain recognized in conjunction with the receipt of proceeds constituting the final resolution of our investment in Canada.

Effective Tax Rate

Three Months Ended		Nine Months Ended	
June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
16.8 %	35.4 %	30.4 %	32.6 %

Third quarter and nine months - Fiscal 2014 – The effective tax rate for continuing operations was impacted by:

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

Third quarter and nine months - Fiscal 2013 – The effective tax rate for continuing operations was impacted by:

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

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Segment Results

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

in millions	Sales			
	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Chicken	$2,829	$2,820	$8,327	$8,148
Beef	4,189	3,723	11,748	10,655
Pork	1,766	1,332	4,677	4,006
Prepared Foods	901	797	2,669	2,441
International	365	343	1,020	1,001
Other	—	—	—	47
Intersegment Sales	(368)	(284)	(966)	(818)
Total	$9,682	$8,731	$27,475	$25,480

in millions	Operating Income (Loss)			
	Three Months Ended		Nine Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Chicken	$195	$215	$682	$471
Beef	101	114	194	134
Pork	128	67	356	264
Prepared Foods	(50)	24	(13)	85
International	(15)	5	(73)	—
Other	(8)	(6)	(22)	5
Total	$351	$419	$1,124	$959

Third quarter and nine months – Fiscal 2014

- Operating income was reduced by $49 million in the Prepared Foods segment for impairments related to the closure of three plants.
- Operating income was reduced by $7 million in Other for third party transaction fees incurred as part of the Hillshire acquisition.

Chicken Segment Results

in millions	Three Months Ended			Nine Months Ended		
	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Sales	$2,829	$2,820	$9	$8,327	$8,148	$179
Sales Volume Change			1.3 %			2.7 %
Average Sales Price Change			(1.0)%			(0.5)%
Operating Income	$195	$215	$(20)	$682	$471	$211
Operating Margin	6.9 %	7.6 %		8.2 %	5.8 %	

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales volume grew as a result of stronger demand for chicken products and mix of rendered product sales.
- Average Sales Price – Average sales price decreased as feed ingredient costs declined, partially offset by mix changes.
- Operating Income – Operating income for the third quarter of fiscal 2014 was negatively impacted by rapidly rising costs of outside meat purchases as well as operational disruptions at two of our facilities. For the nine months of fiscal 2014, operating income increased due to higher sales volume and lower feed ingredient costs, partially offset by decreased average sales price. Feed costs decreased $120 million and $460 million for the third quarter and nine months of fiscal 2014, respectively.

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Beef Segment Results

in millions	Three Months Ended			Nine Months Ended		
	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Sales	$4,189	$3,723	$466	$11,748	$10,655	$1,093
Sales Volume Change			(0.9)%			0.4 %
Average Sales Price Change			13.5 %			9.8 %
Operating Income	$101	$114	$(13)	$194	$134	$60
Operating Margin	2.4 %	3.1 %		1.7 %	1.3 %	

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales volume decreased for the third quarter of fiscal 2014 due to a reduction in live cattle processed. However, sales volumes were up for the nine months of fiscal 2014 due to better domestic demand for our beef products, partially offset by reduced exports.
- Average Sales Price – Average sales price increased due to lower domestic availability of fed cattle supplies, which additionally drove up livestock costs.
- Operating Income – Operating income decreased for the third quarter of fiscal 2014 due to higher fed cattle costs and periods of reduced demand for beef products, which made it difficult to pass along increased input costs, as well as lower sales volumes and increased operating costs. For the nine months of fiscal 2014, operating income increased due to improved operational execution and maximizing our revenues relative to the rising live cattle markets, partially offset by increased operating costs.

Pork Segment Results

in millions	Three Months Ended			Nine Months Ended		
	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Sales	$1,766	$1,332	$434	$4,677	$4,006	$671
Sales Volume Change			5.0 %			1.1 %
Average Sales Price Change			26.3 %			15.4 %
Operating Income	$128	$67	$61	$356	$264	$92
Operating Margin	7.2 %	5.0 %		7.6 %	6.6 %	

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

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

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Prepared Foods Segment Results

in millions	Three Months Ended			Nine Months Ended		
	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Sales	$901	$797	$104	$2,669	$2,441	$228
Sales Volume Change			4.0 %			5.2 %
Average Sales Price Change			8.7 %			4.0 %
Operating Income	$(50)	$24	$(74)	$(13)	$85	$(98)
Operating Margin	(5.5)%	3.0 %		(0.5)%	3.5 %	

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales volume increased as a result of improved demand for our prepared foods products and incremental volumes from the purchase of three businesses.
- Average Sales Price – Average sales price increased due to better product mix and price increases associated with higher input costs.
- Operating Income – Operating income decreased as a result of higher raw material and other input costs of approximately $95 million and $160 million for the third quarter and nine months of fiscal 2014, respectively, and additional costs incurred as we invested in our growth platforms. Because many of our sales contracts are formula based or shorter-term in nature, we are typically able to offset rising input costs through pricing. However, there is a lag time for price increases to take effect. Additionally, in the third quarter of fiscal 2014, we incurred a $49 million impairment charge related to the planned closure of three plants, which are expected to cease operation by mid-fiscal 2015.

International Segment Results

in millions	Three Months Ended			Nine Months Ended		
	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Sales	$365	$343	$22	$1,020	$1,001	$19
Sales Volume Change			17.2 %			14.0 %
Average Sales Price Change			(9.2)%			(10.6)%
Operating Income	$(15)	$5	$(20)	$(73)	$—	$(73)
Operating Margin	(4.1)%	1.5 %		(7.2)%	— %	

Third quarter and nine months – Fiscal 2014 vs Fiscal 2013

- Sales Volume – Sales volume increased as we grew our businesses in Brazil and China.
- Average Sales Price – Average sales price decreased due to poor export market conditions in Brazil, supply imbalances associated with weak demand in China and a less favorable pricing environment in Mexico.
- Operating Income – Operating income decreased due to poor operational execution in Brazil, challenging market conditions in Brazil and China and additional costs incurred as we grew our International operation.

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LIQUIDITY AND CAPITAL RESOURCES

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

As described below, we have entered into a definitive merger agreement to acquire Hillshire. Subsequent to our third quarter of fiscal 2014, we raised substantial capital in order to finance the acquisition. The impacts of the acquisition and related financing may affect our future liquidity and capital resources.

Cash Flows from Operating Activities

in millions	Nine Months Ended	
	June 28, 2014	June 29, 2013
Net income	$720	$519
Non-cash items in net income:		
Depreciation and amortization	382	387
Deferred income taxes	(64)	(21)
Other, net	76	80
Convertible debt discount	(92)	—
Net, changes in working capital	(479)	(193)
Net cash provided by operating activities	$543	$772

- Operating cash outflow associated with the Convertible debt discount relates to the initial debt discount of $92 million on our 2013 Notes, which matured and were retired in the first quarter of fiscal 2014.
- Cash flows associated with changes in working capital for the nine months ended:
- June 28, 2014 – Decreased primarily due to higher inventory and accounts receivable balances and decreases in taxes payable and accrued salaries, wages and benefits balances, partially offset by an increase in accounts payable. The increased inventory and accounts receivable balances are largely due to increased raw material costs.
- June 29, 2013 – Decreased primarily due to higher inventory and accounts receivable balances and lower accounts payable. The increased inventory and accounts receivable balances are largely due to increased raw material costs and timing of sales.
- We expect 2014 sales to approximate $38 billion as we continue to execute our strategy of accelerating growth in domestic value-added chicken sales, prepared food sales, and international chicken production, as well as price increases associated with rising cattle and hog costs and raw materials in Prepared Foods.

Cash Flows from Investing Activities

in millions	Nine Months Ended	
	June 28, 2014	June 29, 2013
Additions to property, plant and equipment	$(437)	$(425)
(Purchases of)/Proceeds from marketable securities, net	(1)	(101)
Acquisitions, net of cash acquired	(56)	(106)
Other, net	44	36
Net cash used for investing activities	$(450)	$(596)

- Additions to property, plant and equipment include acquiring new equipment and upgrading our facilities to maintain competitive standing and position us for future opportunities.
- Capital spending for fiscal 2014 is expected to be approximately $600 to $650 million, and will include spending on our operations for production and labor efficiencies, yield improvements and sales channel flexibility.
- Acquisitions - During the nine months of fiscal 2014, we acquired a value-added food business as part of our strategic expansion initiative. The purchase price of the acquisition was $56 million, which included $12 million for property,

plant and equipment, $27 million allocated to Intangible Assets and $18 million allocated to Goodwill.

- Other, net includes $30 million received from the sale of our 50 percent ownership interest in our Dynamic Fuels LLC (Dynamic Fuels) joint venture.

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- On July 1, 2014, we executed a definitive merger agreement with Hillshire to acquire all of its outstanding stock for $63.00 per share in cash. The transaction is valued at an estimated $8.9 billion, including the assumption of Hillshire's net debt and $163 million termination fee. Refer to further description regarding this transaction under Part 1, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 16: Subsequent Events.
- On July 28, 2014, we announced we reached a definitive agreement to sell our chicken production operations in Brazil and Mexico to JBS SA ("JBS") for $575 million. The all-cash transaction is subject to customary closing conditions and requires necessary government approvals in Brazil and Mexico. We expect to close the sale by the end of calendar 2014. The combined operations of Brazil and Mexico, which are part of our International segment, had annual sales of approximately $1 billion and we expect to realize a net gain upon completion of the transaction. We intend to use the cash receipts to pay down debt.

Cash Flows from Financing Activities

in millions	Nine Months Ended	
	June 28, 2014	June 29, 2013
Payments on debt	$(407)	$(69)
Net proceeds from borrowings	28	48
Purchases of Tyson Class A common stock	(286)	(298)
Dividends	(76)	(87)
Stock options exercised	61	93
Other, net	26	13
Net cash used for financing activities	$(654)	$(300)

- Our 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. The 2013 Notes were initially recorded at a $92 million discount, which equaled the fair value of an equity conversion premium instrument. The portion of the payment of the Notes related to the initial $92 million discount was recorded in cash flows from operating activities. Simultaneous to the settlement of the conversion premium, we received 11.7 million shares of our Class A stock from the call options.
- During the nine months of fiscal 2014, we received proceeds of $26 million and paid $37 million related to borrowings at our foreign subsidiaries. Total debt related to our foreign subsidiaries was $49 million at June 28, 2014 ($39 million current, $10 million long-term).
- Purchases of Tyson Class A stock included:
- $250 million shares repurchased pursuant to our share repurchase program during the nine months ended June 28, 2014 and June 29, 2013, respectively.
- $36 million and $48 million for shares repurchased to fund certain obligations under our equity compensation programs during the nine months ended June 28, 2014 and June 29, 2013, respectively.
- We currently do not plan to repurchase shares other than to fund obligations under equity compensation programs.
- Dividends during the nine months of fiscal 2014 included a 50% increase to our quarterly dividend rate. Dividends during the nine months of fiscal 2013 include a special dividend of $0.10 and $0.09 to holders of our Class A stock and Class B stock, respectively.
- Acquisition Financing – In the third quarter of fiscal 2014, we entered into a fully committed 364-day, $8.2 billion unsecured bridge facility. In July 2014, we decreased the bridge facility to $5.7 billion and added a $2.5 billion senior unsecured term loan facility. The committed facilities, together with cash on hand, will be available to fund the Hillshire acquisition, including the payment of related fees and expenses. The lenders are obligated to fund the facilities, subject to customary closing conditions. The bridge facility provides that the commitments will be automatically reduced on a dollar-for-dollar basis by, among other things, the net cash proceeds of certain offerings of debt, equity or equity-linked securities; the committed principal amount of certain term loan facilities; and the net cash proceeds of certain asset sales and will mature on the date that is 364-days after the date on which lenders are obligated to make initial loans under the bridge facility. Permanent funding for the Hillshire acquisition includes a mix of Class A common stock, tangible equity units, term loans, senior notes, and cash on hand. Additional details of the permanent funding include:

- Class A Common Stock: On August 5, 2014, we completed the issuance of 23.8 million shares of our Class A common stock for total proceeds, net of underwriting discounts and other estimated expenses, of $873 million. The amount of shares of Class A common stock sold may increase up to 3.6 million shares if the underwriters exercise their over-allotment option, which expires on August 29, 2014.

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- Tangible Equity Units: On August 5, 2014, we completed the issuance of 30 million, 4.75% tangible equity units. Total proceeds, net of underwriting discounts and other estimated expenses, was $1,454 million. Each tangible equity unit, which has a stated amount of $50, is comprised of a prepaid stock purchase contract and a senior amortizing note due July 15, 2017. The senior amortizing note is payable quarterly and has a stated interest rate of 1.5%. Unless earlier redeemed or settled, each purchase contract will automatically settle on July 15, 2017, and the Company will deliver between a minimum of 31.7 million and a maximum of 39.7 million of the shares, subject to adjustment, based upon the applicable market value of the Class A common stock. Prior to any adjustments, we will deliver the minimum amount of shares upon conversion if our share price is equal to or greater than the conversion price of $47.25 and will deliver the maximum shares upon conversion if our share price is equal to or less than the reference price of $37.80. If our share price upon conversion is between the reference and conversion prices, we will deliver a variable amount of shares between the minimum and maximum amounts. The fair value of the prepaid stock purchase contracts, which is estimated at $1,295 million, will be recorded in Capital in Excess of Par Value, net of its offering expenses. The fair value of the senior amortizing notes, which is estimated at $205 million, will be recorded in debt, of which $65 million is current.
- Term Loan Facility: The committed unsecured term loan facility provides for total term loan commitments in an aggregate principal amount of $2,500 million, consisting of a $1,306 million 3-year tranche facility, a $594 million 5-year tranche A facility, and a $600 million 5-year tranche B facility. The principal of the 3-year tranche facility and the 5-year tranche A facility each amortize at 2.5% per quarter. The lenders are obligated to fund the loans upon consummation of the tender offer, subject to customary closing conditions. In addition, we estimate the term loan issuance costs will total approximately $13 million.
- Senior Notes: On August 5, 2014, we launched and priced a public offering of senior unsecured notes with an aggregate principal amount of $3,250 million, consisting of $1,000 million due August 2019 (“2019 Notes”), $1,250 million due August 2024 (“2024 Notes”), $500 million due August 2034 ("2034 Notes"), and $500 million due August 2044 (“2044 Notes”). The 2019 Notes, 2024 Notes, 2034 Notes, and 2044 Notes carry interest rates of 2.65%, 3.95%, 4.88% and 5.15%, respectively, with interest payments due semi-annually on August 15 and February 15. After the original issue discounts of $7 million, we expect to receive net proceeds of $3,243 million. In addition, we estimate that the total senior notes offering costs will total approximately $29 million. We expect to close on the senior notes offering on August 8, 2014.
- Revolving Credit Facility: On June 27, 2014, we amended our existing revolving credit facility to, among other things, permit the consummation of certain debt financings related to our tender offer to acquire all of the issued and outstanding shares of common stock of Hillshire.

Liquidity
in millions

	Commitments Expiration Date	Facility Amount	Outstanding Letters of Credit (no draw downs)	Amount Borrowed	Amount Available
Cash and cash equivalents					$587
Short-term investments					$2
Revolving credit facility	August 2017	$1,000	$41	$—	$959
Total liquidity					$1,548

- The revolving credit facility supports our short-term funding needs and letters of credit. The letters of credit issued under this facility are primarily in support of workers’ compensation insurance programs and derivative activities.
- In October 2013 our 2013 Notes matured at which time we paid the $458 million principal value with cash on hand.
- We expect net interest expense will approximate $130 million for fiscal 2014, which includes estimates regarding the timing and composition of debt financing and closing of the Hillshire acquisition.
- At June 28, 2014, approximately 47% of our cash was held in the international accounts of our foreign subsidiaries. Generally, we do not rely on the foreign cash as a source of funds to support our ongoing domestic liquidity needs.

Rather, we manage our worldwide cash requirements by reviewing available funds among our foreign subsidiaries and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to regulatory capital requirements; however, those balances are generally available without legal restrictions to fund ordinary business operations. U.S. income taxes, net of applicable foreign tax credits, have not been provided on undistributed earnings of foreign subsidiaries. Our intention is to reinvest the cash held by foreign subsidiaries permanently or to repatriate only when it is tax efficient to do so.

- Our current ratio was 2.11 to 1 and 1.86 to 1 at June 28, 2014, and September 28, 2013, respectively.

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Capital Resources

As described above, subsequent to our third quarter of fiscal 2014, we raised substantial capital in order to finance our pending acquisition of Hillshire. The impacts of these capital resources may affect future periods' debt-to-total capitalization ratios and credit ratings.

Credit Facility

Cash flows from operating activities and current cash on hand are our primary sources of liquidity for funding debt service, capital expenditures, dividends and share repurchases. We also have a revolving credit facility, with a committed maximum capacity of $1.0 billion, to provide additional liquidity for working capital needs, letters of credit and a source of financing for growth opportunities. As of June 28, 2014, we had outstanding letters of credit totaling $41 million issued under this facility, none of which were drawn upon, which left $959 million available for borrowing. Our revolving credit facility is funded by a syndicate of 44 banks, with commitments ranging from $0.3 million to $90 million per bank. The syndicate includes bank holding companies that are required to be adequately capitalized under federal bank regulatory agency requirements.

Capitalization

To monitor our credit ratings and our capacity for long-term financing, we consider various qualitative and quantitative factors. We monitor the ratio of our debt to our total capitalization as support for our long-term financing decisions. At June 28, 2014, and September 28, 2013, the ratio of our debt-to-total capitalization was 21.4% and 27.9%, respectively. The reduction in this ratio at June 28, 2014 was due to the retirement of our 2013 Notes, which totaled $458 million, upon their maturity in our first quarter of fiscal 2014. Additionally, in the third quarter of fiscal 2014, we settled the $100 million Dynamic Fuels’ Gulf Opportunity Zone tax-exempt bonds associated with the deconsolidation of our Dynamic Fuels subsidiary due to the sale of our 50 percent ownership interest. For the purpose of this calculation, debt is defined as the sum of current and long-term debt. Total capitalization is defined as debt plus Total Shareholders’ Equity.

Credit Ratings

2016 Notes

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

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

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

Revolving Credit Facility

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

Ratings Level (S&P/Moody's/Fitch)	Facility Fee Rate		Undrawn Letter of Credit Fee and Borrowing Spread	
BBB+/Baa1/BBB+ or above	0.150	%	1.125	%
BBB/Baa2/BBB (current level)	0.175	%	1.375	%
BBB-/Baa3/BBB-	0.225	%	1.625	%
BB+/Ba1/BB+	0.275	%	1.875	%
BB/Ba2/BB or lower or unrated	0.325	%	2.125	%

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

Debt Covenants
Our revolving credit 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; 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.
As described above, subsequent to our third quarter of fiscal 2014, we raised substantial capital in order to finance our pending acquisition of Hillshire. The senior notes, term loan facility and bridge facility contain certain covenants which are consistent with our existing covenants.
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 June 28, 2014.
RECENTLY ADOPTED/ISSUED ACCOUNTING PRONOUNCEMENTS
Refer to the discussion of recently adopted/issued accounting pronouncements under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 1: Accounting Policies.
CRITICAL ACCOUNTING ESTIMATES
We consider accounting policies related to: contingent liabilities; marketing and advertising costs; accrued self insurance; impairment of long-lived assets; impairment of goodwill and other intangible assets; and income taxes to be critical accounting estimates. These policies are summarized in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended September 28, 2013.
CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of our outlook for fiscal 2014, other future economic circumstances, industry conditions in domestic and international markets, our performance and financial results (e.g., debt levels, return on invested capital, value-added product growth, capital expenditures, tax rates, access to foreign markets and dividend policy). These forward-looking statements are subject to a number of factors and uncertainties that could cause our actual results and experiences to differ materially from anticipated results and expectations expressed in such forward-looking statements. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.
Among the factors that may cause actual results and experiences to differ from anticipated results and expectations expressed in such forward-looking statements are the following: (i) the effect of, or changes in, general economic conditions; (ii) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (iii) market conditions for finished products, including competition from other global and domestic food processors, supply and pricing of competing products and alternative proteins and demand for alternative proteins; (iv) successful rationalization of existing facilities and operating efficiencies of the facilities; (v) risks associated with our commodity purchasing activities; (vi) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vii) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an adverse effect on livestock we own, the availability of livestock we purchase, consumer perception of certain protein products or our ability to access certain domestic and foreign markets; (viii) changes in availability and relative costs of labor and contract growers and our ability to maintain good relationships with employees, labor unions, contract growers and independent producers providing us livestock; (ix) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (x) changes in consumer preference and diets and our ability to identify and react to consumer trends; (xi) significant marketing plan changes by large customers or loss of one or more large customers;

(xii) adverse results from litigation; (xiii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiv) compliance with and changes to regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws; (xv) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xvi) effectiveness of advertising and marketing programs; and (xvii) those factors listed under Item 1A. “Risk Factors” included in our Annual Report filed on Form 10-K for the year ended September 28, 2013.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Commodities Risk: We purchase certain commodities, such as grains and livestock, in the course of normal operations. As part of our commodity risk management activities, we use derivative financial instruments, primarily futures and options, to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying our derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges could result in volatility in our results of operations. Contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of June 28, 2014, and September 28, 2013, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge derivative financial instruments.

Effect of 10% change in fair value		in millions
	June 28, 2014	September 28, 2013
Livestock:		
Cattle	$73	$13
Hogs	47	35
Grain	8	23

Interest Rate Risk: At June 28, 2014, we had variable rate debt of $49 million with a weighted average interest rate of 6.7%. A hypothetical 10% increase in interest rates effective at June 28, 2014, and September 28, 2013, would have a minimal effect on interest expense.

Additionally, changes in interest rates impact the fair value of our fixed-rate debt. At June 28, 2014, we had fixed-rate debt of $1.8 billion with a weighted average interest rate of 5.5%. Market risk for fixed-rate debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately $20 million at June 28, 2014 and $22 million at September 28, 2013. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

Foreign Currency Risk: We have foreign exchange exposure from fluctuations in foreign currency exchange rates primarily as a result of certain receivable and payable balances. The primary currencies we have exposure to are the Brazilian real, the British pound sterling, the Canadian dollar, the Chinese renminbi, the European euro, the Indian rupee and the Mexican peso. We periodically enter into foreign exchange forward and option contracts to hedge some portion of our foreign currency exposure. A hypothetical 10% change in foreign exchange rates effective at June 28, 2014, and September 28, 2013, related to the foreign exchange forward and option contracts would have a $4 million and $11 million impact, respectively, on pretax income. In the future, we may enter into more foreign exchange forward and option contracts as a result of our international growth strategy.

Concentration of Credit Risk: Refer to our market risk disclosures set forth in the 2013 Annual Report filed on Form 10-K for a detailed discussion of quantitative and qualitative disclosures about concentration of credit risks, as these risk disclosures have not changed significantly from the 2013 Annual Report.

Item 4. Controls and Procedures
An evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, management, including the CEO and CFO, has concluded that, as of June 28, 2014, our disclosure controls and procedures were effective.
In the third quarter ended June 28, 2014, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.
PART II. OTHER INFORMATION
Item 1. Legal Proceedings
Refer to the description of certain legal proceedings pending against us under Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 15: Commitments and Contingencies, which discussion is incorporated herein by reference. Listed below are certain additional legal proceedings involving the Company and/or its subsidiaries.
On May 8, 2008, a lawsuit was filed against the Company and two of our employees in the District Court of McCurtain County, Oklahoma styled Armstrong, et al. v. Tyson Foods, Inc., et al. (the Armstrong Case). The lawsuit was brought by a group of 52 poultry growers who allege that certain of our live production practices in Oklahoma constitute fraudulent inducement, fraud, unjust enrichment, negligence, gross negligence, unconscionability, violations of the Oklahoma Business Sales Act, Deceptive Trade Practice violations, violations of the Consumer Protection Act, and conversion, as well as other theories of recovery. The plaintiffs sought damages in an unspecified amount. On October 30, 2009, 20 additional growers represented by the same attorney filed a lawsuit against us in the same court asserting the same or similar claims, which is styled Clardy, et al. v. Tyson Foods, Inc., et al. (the Clardy Case). In both of these cases we have denied all allegations of wrongdoing. In June 2009, the plaintiffs in the Armstrong case requested an expedited trial date for a smaller group of plaintiffs they claimed were facing imminent financial peril. The Court ultimately severed a group of 10 plaintiffs from the Armstrong Case, and a trial began on March 15, 2010. On April 1, 2010, the jury returned a verdict against us and one of our employees, and on April 2, 2010, the Court entered a judgment in the amount of $8,655,735, which included punitive damages. Subsequent to the trial, the presiding judge disqualified from the cases and the Oklahoma Supreme Court appointed a new judge to the cases. Following this appointment, the trial court granted our motions for change of venue and to stay all future trials of plaintiffs in the Armstrong Case and the Clardy Case pending the outcome of our appeal of the initial Armstrong Case verdict. The trial court took under advisement the sizes of groupings of plaintiffs in future trials in response to our motion to sever the plaintiffs' claims into individual cases. We appealed the initial Armstrong Case verdict to the Oklahoma Supreme Court based on numerous irregularities and rulings during the trial, and the Oklahoma Supreme Court reversed the verdict and remanded the case back to the trial court. At this time, the district court has not set trial dates for the Armstrong Case or the Clardy Case.
In September 2013, the United States Department of Justice (DOJ) alleged that one of our subsidiaries did not comply with the Clean Water Act with respect to a spill that occurred in North Carolina in January 2010. Following discussions with the DOJ, we agreed to settle the allegations and underlying claims for $305,000.
On June 17, 2014, the Missouri attorney general filed a civil lawsuit against us concerning an incident that occurred in May 2014 in which some feed supplement was discharged from our plant in Monett, Missouri, to the City of Monett's wastewater treatment plant allegedly leading to a fish kill in a local stream and odor issues around the plant. That lawsuit alleges six violations stemming from the incident and seeks penalties against us, compensation for damage to the stream, and reimbursement for the State of Missouri's costs in investigating the matter. The U.S. Environmental Protection Agency has also indicated to us that it has begun a criminal investigation into the incident. If we become subject to criminal charges, we may be subject to a fine and other relief, as well as government contract suspension and debarment. We are cooperating with the Environmental Protection Agency but cannot predict the outcome of its investigation at this time. It is also possible that other regulatory agencies may commence investigations and allege additional violations. Finally, we may be subject to claims from the City of Monett for causing it to violate various municipal regulations and for damages to the City's treatment system.

Other Matters: We currently have approximately 115,000 employees and, at any time, have various employment practices matters outstanding. In the aggregate, these matters are significant to the Company, and we devote significant resources to managing employment issues. Additionally, we are subject to other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. While the ultimate results of these matters cannot be determined, they are not expected to have a material adverse effect on our consolidated results of operations or financial position.

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Item 1A. Risk Factors

In addition to the information set forth below and elsewhere in this Form 10-Q and the risk factors listed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K for the year ended September 28, 2013, you should carefully consider the risk factors set forth below. These risks could materially adversely affect our business, financial condition or results of operations.

Risks Related to the Proposed Hillshire Brands Acquisition

If the Hillshire Brands Acquisition is consummated, we may be unable to successfully integrate Hillshire Brands' operations or to realize targeted cost savings, revenues and other benefits of the Hillshire Brands Acquisition.

We entered into the merger agreement for the Hillshire Brands acquisition because we believe that the Hillshire Brands acquisition will be beneficial to us and our stockholders. Achieving the targeted benefits of the Hillshire Brands acquisition will depend in part upon whether we can integrate Hillshire Brands' businesses in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully. The necessity of coordinating geographically separated organizations, systems and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. We and Hillshire Brands operate numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. Moreover, the integration of our respective operations will require the dedication of significant management resources, which is likely to distract management's attention from day-to-day operations. Employee uncertainty and lack of focus during the integration process may also disrupt our business and result in undesired employee attrition. An inability of management to successfully integrate the operations of the two companies could have a material adverse effect on the business, results of operations and financial condition of the combined businesses.

In addition, we continue to evaluate our estimates of synergies to be realized from the Hillshire Brands acquisition and refine them, so that our actual cost-savings could differ materially from our current estimates. Actual cost-savings, the costs required to realize the cost-savings and the source of the cost-savings could differ materially from our estimates, and we cannot assure you that we will achieve the full amount of cost-savings on the schedule anticipated or at all or that these cost-savings programs will not have other adverse effects on our business. In light of these uncertainties, you should not place undue reliance on our estimated cost-savings.

Finally, we may not be able to achieve the targeted operating or long-term strategic benefits of the Hillshire Brands acquisition or could incur higher transition costs. An inability to realize the full extent of, or any of, the anticipated benefits of the Hillshire Brands acquisition, as well as any delays encountered in the integration process, could have an adverse effect on our business, results of operations and financial condition.

We will incur significant transaction and acquisition-related costs in connection with the Hillshire Brands Acquisition.

We expect to incur significant costs associated with the Hillshire Brands acquisition and combining the operations of the two companies, including costs to achieve targeted cost-savings. The substantial majority of the expenses resulting from the Hillshire Brands acquisition will be composed of transaction costs related to the Hillshire Brands acquisition, systems consolidation costs, and business integration and employment-related costs, including costs for severance, retention and other restructuring. We may also incur transaction fees and costs related to formulating integration plans. Additional unanticipated costs may be incurred in the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

The announcement and pendency of the Hillshire Brands Acquisition could impact or cause disruptions in our and Hillshire Brands' businesses.

Specifically:

- our and Hillshire Brands' current and prospective customers and suppliers may experience uncertainty associated with the Hillshire Brands Acquisition, including with respect to current or future business relationships with us, Hillshire Brands or the combined business and may attempt to negotiate changes in existing business;
- our and Hillshire Brands' employees may experience uncertainty about their future roles with us, which may adversely affect our and Hillshire Brands' ability to retain and hire key employees;

- the Hillshire Brands Acquisition may give rise to potential liabilities, including as a result of pending and future Hillshire Brands shareholder lawsuits relating to the Hillshire Brands Acquisition;
- if the Hillshire Brands Acquisition is completed, the accelerated vesting of equity-based awards and payment of "change in control" benefits to some members of Hillshire Brands' management on completion of the Hillshire Brands Acquisition could result in increased difficulty or cost in retaining Hillshire Brands' officers and employees; and
- the attention of our management and that of Hillshire Brands may be directed toward the completion and implementation of the Hillshire Brands Acquisition and transaction-related considerations and may be diverted from the day-to-day business operations of the respective companies.

In connection with the Hillshire Brands Acquisition, we could also encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the Hillshire Brands Acquisition, as described in more detail above.

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The Hillshire Brands Acquisition may not be successful.

We recently announced our entry into the merger agreement to acquire Hillshire Brands. Risks associated with the Hillshire Brands acquisition include the risk that the transaction may not be consummated, the risk that regulatory approval that may be required for the transaction is not obtained or is obtained subject to certain conditions that are not anticipated, litigation risk associated with claims or potential claims brought by shareholders of Hillshire Brands to enjoin the transaction or seek monetary damages, and risks associated with our ability to issue debt to fund a portion of the purchase price. In addition, if the Hillshire Brands acquisition does not close, we will have significant discretion to allocate the proceeds from the above-described concurrent offerings of Class A common stock and tangible equity units offering to other uses. We have no assurances that we will have opportunities to allocate the proceeds from those offerings for other productive uses or that other uses of the proceeds from those offerings will result in a favorable return to investors.

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

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

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [1]
Mar. 30, 2014 to Apr. 26, 2014	85,229		$42.37	—	32,054,771
Apr. 27, 2014 to May 31, 2014	143,444		41.14	—	32,054,771
Jun. 01, 2014 to Jun. 28, 2014	44,929		39.29	—	32,054,771
Total	273,602	[2]	$41.22	—	32,054,771

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

(2) We purchased 273,602 shares during the period that were not made pursuant to our previously announced stock repurchase program, but were purchased to fund certain Company obligations under our equity compensation plans. These transactions included 241,609 shares purchased in open market transactions and 31,993 shares withheld to cover required tax withholdings on the vesting of restricted stock.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

The following exhibits are filed with this report.

Exhibit No.	Exhibit Description
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended June, 28, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Statements of Income, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows, and (v) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

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

TYSON FOODS, INC.

Date: August 7, 2014	/s/ Dennis Leatherby Dennis Leatherby Executive Vice President and Chief Financial Officer
Date: August 7, 2014	/s/ Curt T. Calaway Curt T. Calaway Senior Vice President, Controller and Chief Accounting Officer

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