PROXY PAPER

# TYSON FOODS, INC.

GLASS LEWIS & Co.

NYSE: **TSN**
ISIN: **US902494103**

**MEETING DATE:** 31 JANUARY 2014
**RECORD DATE:** 31 JANUARY 2014
**PUBLISH DATE:** 14 JANUARY 2014

**COMPANY DESCRIPTION**

Tyson Foods, Inc., together with its subsidiaries, produces, distributes, and markets chicken, beef, pork, prepared foods, and related allied products worldwide.

**INDEX MEMBERSHIP:** RUSSELL 1000; RUSSELL 3000; S&P 500
**SECTOR:** CONSUMER STAPLES
**INDUSTRY:** FOOD PRODUCTS
**COUNTRY OF TRADE:** UNITED STATES
**COUNTRY OF INCORPORATION:** UNITED STATES
**VOTING IMPEDIMENT:** NONE
**DISCLOSURES:** NONE

OWNERSHIP | COMPANY PROFILE | COMPENSATION | PREVIOUS BOARD | PEER COMPARISON | VOTE RESULTS | APPENDIX

## 2014 ANNUAL MEETING

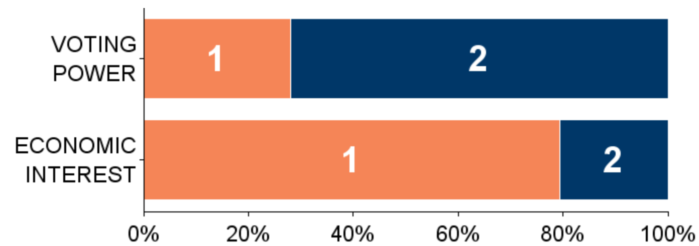
| PROPOSAL | ISSUE | BOARD | GLASS LEWIS | CONCERNS |
|---|---|---|---|---|
| 1.00 | Election of Directors | FOR | **SPLIT** | |
| 1.01 | Elect John H. Tyson | FOR | **FOR** | |
| 1.02 | Elect Kathleen M. Bader | FOR | **FOR** | |
| 1.03 | Elect Gaurdie E. Banister, Jr. | FOR | **FOR** | |
| 1.04 | Elect Jim Kever | FOR | **FOR** | |
| 1.05 | Elect Kevin M. McNamara | FOR | **FOR** | |
| 1.06 | Elect Brad T. Sauer | FOR | **FOR** | |
| 1.07 | Elect Robert Thurber | FOR | **AGAINST** | • **Adopted forum selection clause** |
| 1.08 | Elect Barbara A. Tyson | FOR | **FOR** | |
| 1.09 | Elect Albert C. Zapanta | FOR | **FOR** | |
| 2.00 | Advisory Vote on Executive Compensation | FOR | **FOR** | |
| 3.00 | Ratification of Auditor | FOR | **FOR** | |
| 4.00 | Shareholder Proposal Regarding Gestation Crates | AGAINST | **ABSTAIN** | • **This proposal has been withdrawn due to corporate commitments** |

# SHARE OWNERSHIP PROFILE

## SHARE BREAKDOWN

| | 1 | 2 |
|---|---|---|
| **SHARE CLASS** | Class A Common Stock | Class B Common Stock |
| **SHARES OUTSTANDING** | 273.6 M | 70.0 M |
| **VOTES PER SHARE** | 1 | 10 |

*SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 26-DEC-2013*




## TOP 20 SHAREHOLDERS

| | HOLDER | OWNED* | COUNTRY | INVESTOR TYPE |
|---|---|---|---|---|
| 1. | Tyson Limited Partnership | 20.96% | United States | Corporations (Private) |
| 2. | The Vanguard Group, Inc. | 5.50% | United States | Traditional Investment Manager |
| 3. | BlackRock, Inc. | 5.47% | United States | Traditional Investment Manager |
| 4. | State Street Global Advisors, Inc. | 3.49% | United States | Traditional Investment Manager |
| 5. | Columbia Management Investment Advisers, LLC | 3.05% | United States | Traditional Investment Manager |
| 6. | Acadian Asset Management (Australia) Ltd. | 3.00% | Australia | Traditional Investment Manager |
| 7. | Robeco Group N.V. | 2.44% | Netherlands | Traditional Investment Manager |
| 8. | Invesco Ltd. | 2.40% | United States | Traditional Investment Manager |
| 9. | Aronson+Johnson+Ortiz, LP | 2.40% | United States | Traditional Investment Manager |
| 10. | LSV Asset Management | 2.32% | United States | Traditional Investment Manager |
| 11. | AQR Capital Management, LLC | 1.32% | United States | Traditional Investment Manager |
| 12. | Van Eck Associates Corporation | 1.25% | United States | Traditional Investment Manager |
| 13. | Northern Trust Global Investments | 1.24% | United States | Traditional Investment Manager |
| 14. | Teachers Insurance and Annuity Association College Retirement Equities Fund | 1.12% | United States | Traditional Investment Manager |
| 15. | Goldman Sachs Asset Management, L.P. | 1.11% | United States | Traditional Investment Manager |
| 16. | Arrowstreet Capital, L.P. | 1.07% | United States | Traditional Investment Manager |
| 17. | Jennison Associates LLC | 0.97% | United States | Traditional Investment Manager |
| 18. | Dimensional Fund Advisors LP | 0.96% | United States | Traditional Investment Manager |
| 19. | Frank Russell Company | 0.93% | United States | Traditional Investment Manager |
| 20. | Numeric Investors LLC | 0.93% | United States | Traditional Investment Manager |

**COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 26-DEC-2013*
***CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.*

## SHAREHOLDER RIGHTS

| | MARKET THRESHOLD | COMPANY THRESHOLD[1] |
|---|---|---|
| VOTING POWER REQUIRED TO CALL A SPECIAL MEETING | N/A | 50% |
| VOTING POWER REQUIRED TO ADD AGENDA ITEM | 1%[2] | 1%[2] |
| VOTING POWER REQUIRED FOR WRITTEN CONSENT | N/A | 50% |

*[1] N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.*
*[2] SHAREHOLDERS MUST OWN THE CORRESPONDING PERCENTAGE OR SHARES WITH MARKET VALUE OF AT LEAST $2,000 FOR AT LEAST ONE YEAR.*

# COMPANY PROFILE

## FINANCIALS

| | 1 YR TSR | 3 YR TSR AVG. | 5 YR TSR AVG. |
|---|---|---|---|
| **TSN** | *81.0%* | *24.6%* | *19.1%* |
| **S&P 500 INDEX** | *20.1%* | *16.3%* | *9.3%* |
| **PEERS*** | *28.2%* | *17.6%* | *12.8%* |

| | |
|---|---|
| **MARKET CAPITALIZATION (MM USD)** | 10,073 |
| **ENTERPRISE VALUE (MM USD)** | 11,368 |
| **REVENUES (MM USD)** | 34,374 |

*ANNUALIZED SHAREHOLDER RETURNS. *PEERS ARE BASED ON THE INDUSTRY SEGMENTATION OF THE GLOBAL INDUSTRIAL CLASSIFICATION SYSTEM (GICS). FIGURES AS OF 28-SEP-2013. SOURCE: CAPITAL IQ*

## EXECUTIVE COMPENSATION

| CHANGE IN CEO PAY* | 1 YR | 3 YR | 5 YR |
|---|---|---|---|
| | *26%* | *12%* | *N/A* |

**SOURCE: EQUILAR. SIMPLE AVERAGE CALCULATION.*

| | | | |
|---|---|---|---|
| **SAY ON PAY FREQUENCY** | *3 Years* | **P4P 2013** | *D* |
| **GLASS LEWIS STRUCTURE RATING** | *Fair* | **GLASS LEWIS DISCLOSURE RATING** | *Fair* |
| **SINGLE TRIGGER CIC VESTING** | *Yes* | **EXCISE TAX GROSS-UPS** | *No* |
| **CLAWBACK PROVISION** | *No* | **OVERHANG OF INCENTIVE PLANS** | *22.48%* |

## ENVIRONMENTAL & SOCIAL

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **EEOC FINES** | 35,000 | N/A | N/A |
| **EPA FINES** | 9,000 | 94,675 | 4,075 |
| **LOBBYING EXPENDITURES** | 1,477,374 | 2,381,036 | 1,823,476 |

| | |
|---|---|
| **% OF WOMEN IN THE WORKPLACE** | *N/A* |
| **RESPONDED TO CDP** | *Responded - Declined to participate* |

- ■ GRI-COMPLIANT SUSTAINABILITY REPORT
- ☐ UN GLOBAL COMPACT SIGNATORY
- ■ HUMAN RIGHTS POLICY CONFORMS WITH ILO OR UN DECLARATION ON HUMAN RIGHTS
- ☐ NON-DISCRIMINATION POLICY INCLUDES GENDER IDENTITY AND/OR GENDER EXPRESSION
- ☐ REGULARLY DISCLOSES TOTAL AMOUNT OF CORPORATE POLITICAL CONTRIBUTIONS
- ☐ HAS GHG EMISSIONS TARGET
- ■ DISCLOSES TOTAL WATER USE

■ *= Applies. Source: IW Financial*

## BOARD & MANAGEMENT

| | | | |
|---|---|---|---|
| **ELECTION METHOD** | *Majority* | **CEO START DATE** | *11/19/2009* |
| **STAGGERED BOARD** | *No* | **AVERAGE NED TENURE** | *9 years* |
| **COMBINED CHAIRMAN/CEO** | *No* | | |

## ANTI-TAKEOVER MEASURES

| | |
|---|---|
| **POISON PILL** | *No* |
| **APPROVED BY SHAREHOLDERS/EXPIRATION DATE** | *N/A; N/A* |

## AUDITORS

| | |
|---|---|
| **AUDITOR: PRICEWATERHOUSECOOPERS** | **TENURE: 4 YEARS** |
| **MATERIAL WEAKNESS(ES) IDENTIFIED IN PAST 12 MONTHS** | *No* |
| **RESTATEMENT(S) IN PAST 12 MONTHS** | *No* |

*CURRENT AS OF JAN 14, 2014*

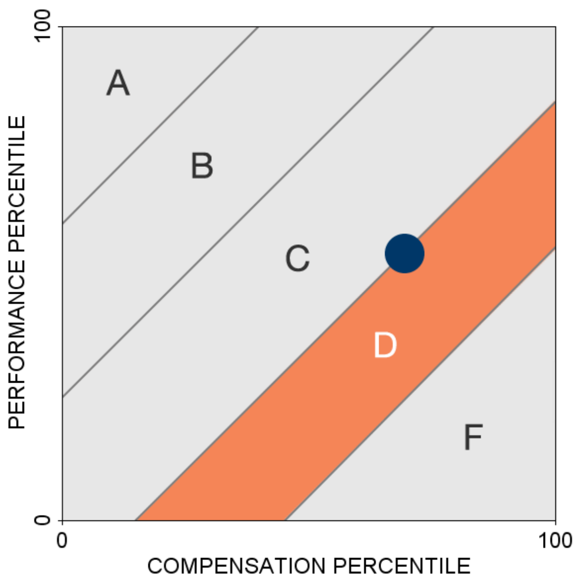
# PAY-FOR-PERFORMANCE

Tyson Foods' executive compensation received a **D** grade in our proprietary pay-for-performance model. The Company paid more compensation to its named executive officers than the median compensation for a group of companies selected using Equilar's market based peer algorithm.The CEO was paid about the same as the median CEO compensation of these peer companies. Overall, the Company paid moderately more than its peers, but performed about the same as its peers.

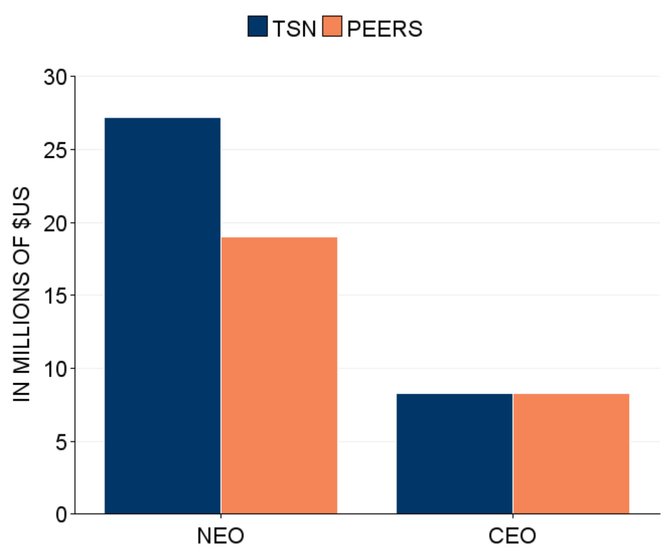
| HISTORICAL COMPENSATION GRADE | | |
|---|---|---|
| | **FY 2013:** | D |
| | **FY 2012:** | D |
| | **FY 2011:** | C |

| FY 2013 CEO COMPENSATION | | |
|---|---|---|
| | **SALARY:** | $1,041,231 |
| | **GDFV EQUITY:** | $4,574,079 |
| | **NEIP/OTHER:** | $4,136,118 |
| | **TOTAL:** | $9,751,428 |

**FY 2013 PAY-FOR-PERFORMANCE GRADE**




**3-YEAR WEIGHTED AVERAGE COMPENSATION**

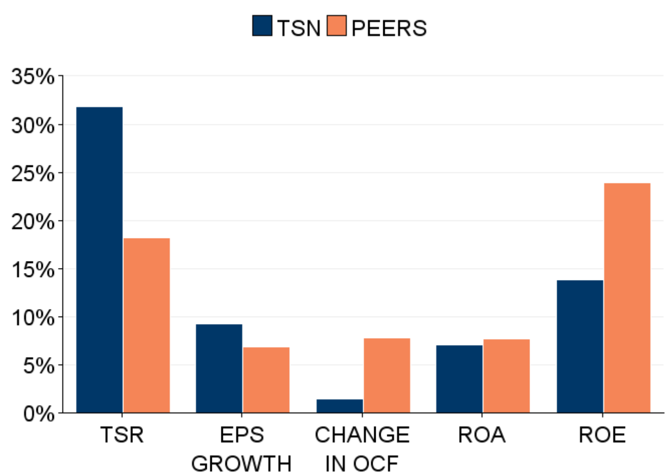



**EQUILAR PEERS VS PEERS DISCLOSED BY COMPANY**

| EQUILAR | TSN |
|---|---|
| Smithfield Foods* | Sanderson Farms |
| Pilgrim's Pride* | Mondelez International, Inc. |
| Hormel Foods* | Hillshire Brands |
| Dean Foods* | Heinz H. J. |
| Campbell Soup* | Archer Daniels Midland |
| Conagra Foods* | |
| Hershey | |
| McCormick* | |
| Kellogg* | |
| Bunge* | |
| General Mills* | |
| Reynolds American | |
| Dr. Pepper Snapple Group | |
| Smucker J. M.* | |
| Colgate Palmolive | |

**ALSO DISCLOSED BY TSN*

**SHAREHOLDER WEALTH AND BUSINESS PERFORMANCE**




Analysis for the year ended 9/28/2013. Performance measures, except ROA and ROE, are based on the weighted average of annualized 1, 2, and 3 year data. Compensation figures are weighted average 3-year data calculated by Glass Lewis based on information disclosed by the Company and its peers in their proxy filings.

Equilar peers are updated in January and July. Peer data is based on public information, as well as information provided to Equilar during its open submission periods. The "Peers Disclosed by Company" data is based on public information only and is updated in January and July. As such, the Peers Disclosed by Company listed here may differ from those provided in the proxy being analyzed. Glass Lewis may exclude certain peers from the Pay for Performance analysis based on factors such as trading status and/or data availability. For details of exclusion criteria, go to:www.glasslewis.com. For more information about Equilar peer groups, go to: www.equilar.com

# 1.00: ELECTION OF DIRECTORS

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Election of nine directors | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT:** | N/A | **AGAINST- Thurber R.** | Adopted forum selection clause in past year w/o shareholder approval |
| **ELECTION METHOD:** | Majority | **FOR-** | **Bader K.**<br>**Banister, Jr. G.**<br>**Kever J.**<br>**McNamara K.**<br>**Sauer B.**<br>**Tyson B.**<br>**Tyson J.**<br>**Zapanta A.** |
| | | **NOT UP-** | **None** |

| | NAME | UP | AGE | GLASS LEWIS CLASSIFICATION | COMPANY CLASSIFICATION | OWNERSHIP** | COMMITTEES AUDIT | COMMITTEES COMP | COMMITTEES GOV | COMMITTEES NOM | TERM START | TERM END | YEARS ON BOARD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | John H. Tyson*<br>·*Chairman* | ✓ | 60 | Insider [1] | Not Independent | 72% | | | | | 1984 | 2014 | 30 |
| | Barbara A. Tyson | ✓ | 64 | Affiliated [2] | Not Independent | 72% | | | | | 1988 | 2014 | 26 |
| | Kathleen M. Bader | ✓ | 63 | Independent | Independent | Yes | ✓ | | | | 2011 | 2014 | 3 |
| | Gaurdie E. Banister, Jr. | ✓ | 56 | Independent | Independent | Yes | | ✓ | | | 2011 | 2014 | 3 |
| | Jim Kever | ✓ | 61 | Independent [3] | Independent | Yes | ✓ | | | | 1999 | 2014 | 15 |
| | Kevin M. McNamara | ✓ | 57 | Independent | Independent | Yes | C | ✓ | | | 2007 | 2014 | 7 |
| | Brad T. Sauer* | ✓ | 54 | Independent [4] | Independent | Yes | | C | ✓ | ✓ | 2008 | 2014 | 6 |
| ⊖ | Robert Thurber | ✓ | 66 | Independent | Independent | Yes | | | C | C | 2009 | 2014 | 5 |
| | Albert C. Zapanta | ✓ | 72 | Independent | Independent | Yes | | | ✓ | ✓ | 2004 | 2014 | 10 |

C = Chair, * = Public Company Executive, ⊖ = Withhold or Against Recommendation

1. Executive chairman. Former CEO (until 2006). Nephew of Barbara Tyson. Received $900,000 for advisory services in fiscal year 2010. General partner of the Tyson Limited Partnership ("TLP"), which beneficially owns approximately 99.9% of the Company's class B common stock and controls approximately 71.9% of the Company's voting power. TLP and certain members of the Tyson family received an aggregate of approximately $1.3 million and $1.5 million from the Company in fiscal year 2013 and 2012, respectively, in respect of aircraft and real property leases and associated taxes.
2. Received $7,200 in advisory fees in fiscal year 2011. Aunt of John Tyson. General partner of the Tyson Limited Partnership ("TLP"), which beneficially owns approximately 99.9% of the Company's outstanding class B common stock and controls approximately 71.9% of the Company's voting power.
3. Lead independent director. Director of a private company in which John Tyson and Kevin McNamara are investors.
4. Executive vice president, 3M Industrial Business Group, of 3M Company, which sold approximately $1.4 million, $1.4 million and $1.3 million in products to the Company in fiscal year 2013, 2012 and 2011, respectively.

***Percentages displayed for ownership above 5%, when available*

| NAME | ATTENDED AT LEAST 75% OF MEETINGS | ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS |
|---|---|---|
| John H. Tyson | Yes | None |
| Barbara A. Tyson | Yes | None |
| Kathleen M. Bader | Yes | (1) Textron Inc. |
| Gaurdie E. Banister, Jr. | Yes | None |
| Jim Kever | Yes | (2) 3D Systems Corporation; Luminex Corporation |
| Kevin M. McNamara | Yes | (1) Luminex Corporation |
| Brad T. Sauer | Yes | None |
| Robert Thurber | Yes | None |
| Albert C. Zapanta | Yes | None |

| INDEPENDENCE AND COMPOSITION | TSN* | REQUIREMENT | BEST PRACTICE |
|---|---|---|---|
| Independent Chairman | No | $No_1$ | $Yes_5$ |
| Board Independence | 78% | $Majority_2$ | $66.7\%_5$ |
| Audit Committee Independence | 100%; Independent Chair | $100\%_3$ | $100\%_5$ |
| Compensation Committee Independence | 100%; Independent Chair | $100\%_2$ | $100\%_5$ |
| Nominating Committee Independence | 100%; Independent Chair | $100\%_2$ | $100\%_5$ |
| Percentage of women on board | 22% | $N/A_4$ | N/A |
| Directors' biographies | DEF14A; Page 7 | | |

** Based on Glass Lewis Classification*

1. *NYSE Listed Company Manual*
2. *Independence as defined by NYSE listing rules*
3. *Securities Exchange Act Rule 10A-3 and NYSE listing rules*
4. *No current marketplace listing requirement*
5. *CII*

## GLASS LEWIS ANALYSIS

Glass Lewis believes that boards should: (i) be at least two-thirds independent; (ii) have standing compensation and nomination committees comprised solely of independent directors; and (iii) designate an independent chairman, or failing that, a lead independent director.

We believe it is important for shareholders to be mindful of the following:

***Tyson Family Control and Role of Compensation Committee***

In this case, we note that the Tyson Limited Partnership beneficially owns approximately 99.9% of the Company's class B common shares and approximately 71.9% of the Company's voting power. Accordingly, the Company is considered a "controlled company" under NYSE listing rules. The Company states that it has elected not to implement NYSE corporate governance rules that call for the compensation committee to determine the compensation of the CEO. However, the compensation committee has approved the employment contracts and total compensation for the CEO since 2003. We suspect that most, if not all, shareholders both understand and accept the nature and extent of the Tyson family's control over the Company and the composition of its board.

***Response to Shareholder Proposal Regarding Treatment of Pigs***

In response to a shareholder proposal intended for the agenda at the upcoming annual meeting, on January 9 the Company asked its pork suppliers to adopt certain practices intended to promote animal welfare. The proponent, Wayne Pacelle (who is the CEO of the Humane Society of the US and who briefly attempted to run for a Company board seat in 2012), has responded by withdrawing the proposal. For additional discussion of this issue, please refer to Proposal 4 of this report.

***Legal and Regulatory Risk: Low***

*Environmental Impact Litigation*

For the past number of years, the Company has been the subject of numerous lawsuits related to the environmental impact of its operations. Since 2003, nine lawsuits have been filed against the Company and other poultry companies alleging that the land application of poultry litter caused arsenic and pathogenic mold and fungi contamination of the air, soil and water. In one such suit tried in 2009, the jury returned a verdict in the Company's favor. The verdict was upheld on appeal. A trial based on similar allegations was set for October 2012, but the Company disclosed in a Form 10-K released on November 19, 2012 that this trial has been canceled and that no new trial date has been set.

In September 2013, the US Department of Justice alleged that a subsidiary of the Company did not comply with the Clean Water Act with respect to a spill that occurred in North Carolina in January 2010. The Company discloses in a Form 10-K filed on November 18, 2013 that the it is currently engaged in settlement discussions with the agency over civil penalties.

*Alleged Deceptive Business Practices*

In May 2008 and October 2010, lawsuits were filed against the Company by a group of poultry growers in a District Court of Oklahoma, alleging certain of the Company's live production practices constituted fraudulent inducement, fraud, unjust enrichment, negligence and other violations of the Oklahoma Business Sales Act and Consumer Protection Act. In April 2010, the jury ruled in favor of the plaintiffs and awarded a monetary judgment including punitive damages. Subsequently, the presiding judge was disqualified from the case and a new judge appointed. The Company has since appealed the initial verdict to the Oklahoma Supreme County based on irregularities during the trial. The verdict has been reversed and the cases are currently remanded back to the trial court. At this time, new trial dates have reversed and the cases are currently remanded back to the trial court. At this time, new trial dates have not been set.

### *Dividend and Share Repurchase Activity*

In fiscal years 2013 and 2012, the annual dividend rate for Class A stock was $0.20 and $0.16 per share and the annual dividend rate for Class B stock was $0.18 and $0.144 per share, respectively. Additionally, in November 2013 the board declared a 25% increase in the quarterly dividend rates. The Company repurchased 21.1 million common shares for $550 million under the share repurchase program in fiscal year 2013.

### *Amendment to Language in Bylaws Regarding the Right to Call a Special Meeting*

As disclosed in a Form 10-Q filed on August 5, 2013, the board amended the Company's bylaws in order to insert several advance notice requirements affecting shareholder nominations and proposals and to insert an exclusive forum provision (as discussed below).

In addition, the board amended the language in the bylaws describing the ability of shareholders to call a special meeting. Prior to the amendment the bylaws stated that a special meeting could be called "at the request in writing of stockholders owning a majority of the stock of the Corporation issued and outstanding and entitled to vote", as disclosed in the Form 8-K filed September 28, 2007.

Following the most recent amendments, the bylaws now state that a special meeting can be called "upon the written request of the record holders of not less than a majority of the voting power of the stock of the Corporation issued and outstanding and entitled to vote."

Thus, the intent of this amendment appears to have been to make clear that only holders of a majority of the Company's voting power (i.e., the Tyson family). Previously, shareholders may have read the bylaws to allow holders of a majority of the outstanding common shares, regardless of class or voting power, to call a special meeting.

We note that there is no clear evidence that the former versions of the bylaws were crafted with an intent to provide the class A shareholders with an ability to call a special meeting, nor that any shareholders read them as such. Further, there is no indication that the board's action was motivated by any immediate anti-takeover concerns. Nevertheless, given that this bylaw relates to an important shareholder right, we think the board should have provided shareholders with an explanation for the amendment.

## Vote Recommendation

We recommend withholding votes from the following nominee up for election this year based on the following issue:

### *Adoption of Exclusive Forum Provision*

Nominee **THURBER** serves as chairman of the governance and nominating committee. As noted above, in August 2013 the board amended the Company's bylaws in order to provide that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for:

> (i) any derivative action or proceeding brought on behalf of the Company; (ii) any action asserting a claim for breach of fiduciary duty owed by any director, officer, or other employee of the Company to the Company or the Company's shareholders; (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law; or (iv) any action asserting a claim governed by the internal affairs doctrine.

Glass Lewis generally supports changes made to a company's bylaws or articles of incorporation that are not contrary to shareholder interest. However, in this case, we believe that the board has not persuasively demonstrated that the benefits of the forum-selection clause outweigh the restriction to shareholder rights. Indeed, to the best of our knowledge, the board has not provided shareholders with its reasons for adopting the amendment.

We believe that shareholder derivative lawsuits provide an important mechanism for shareholders to ensure that directors and officers fulfill their fiduciary duties to the Company. While we acknowledge that the amendment would not alter the application of Delaware law to any derivative lawsuit, we believe that requiring shareholders to bring actions in the State of Delaware may discourage the pursuit of derivative claims by increasing their difficulty and costs. In addition, we note that other jurisdictions have created specialized courts to deal with corporate disputes, and that federal judges in diversity actions routinely apply Delaware law in corporate disputes. While we recognize that Delaware provides an advanced and consistent judiciary, the Company has not provided a compelling case why shareholders should accept any limitations on their legal remedy including choice of venue.

What concerns us most, however, is that the amendment to the Company's bylaws was adopted without shareholder approval. In this case shareholders should be concerned with the board's apparent insensitivity to their best interests. Because the board has elected to restrict shareholder rights without seeking shareholder input on this amendment, we recommend voting against the chairman of the corporate governance and nominating committee, Mr. Thurber, on this basis.

We do not believe there are substantial issues for shareholder concern as to any other nominee.

Accordingly, we recommend that shareholders vote:

**AGAINST:** Thurber

**FOR:** Bader; Banister, Jr.; Kever; McNamara; Sauer; Tyson; Tyson; Zapanta

# 2.00: ADVISORY VOTE ON EXECUTIVE COMPENSATION

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Approval of Executive Pay Package | **PAY FOR PERFORMANCE GRADES:** | **FY 2013** D<br>**FY 2012** D<br>**FY 2011** C |
| **PRIOR YEAR VOTE RESULT:** | N/A | **RECOMMENDATION:** | FOR |
| **STRUCTURE:** | Fair | | |
| **DISCLOSURE:** | Fair | | |

## PROGRAM FEATURES [1]

**POSITIVE**

- LTIP performance-based
- STIP performance-based
- Executive stock ownership guidelines for NEOs

**NEGATIVE**

- Disconnect between pay and performance
- Similar metrics used under STIP and LTIP
- Insufficient disclosure with respect to STIP performance goals
- Excessive reliance on STIP payouts
- Short performance period under LTIP
- Single-trigger CIC equity benefits
- No clawback policy

[1] Both positive and negative compensation features are ranked according to Glass Lewis' view of their importance or severity

## SUMMARY COMPENSATION TABLE

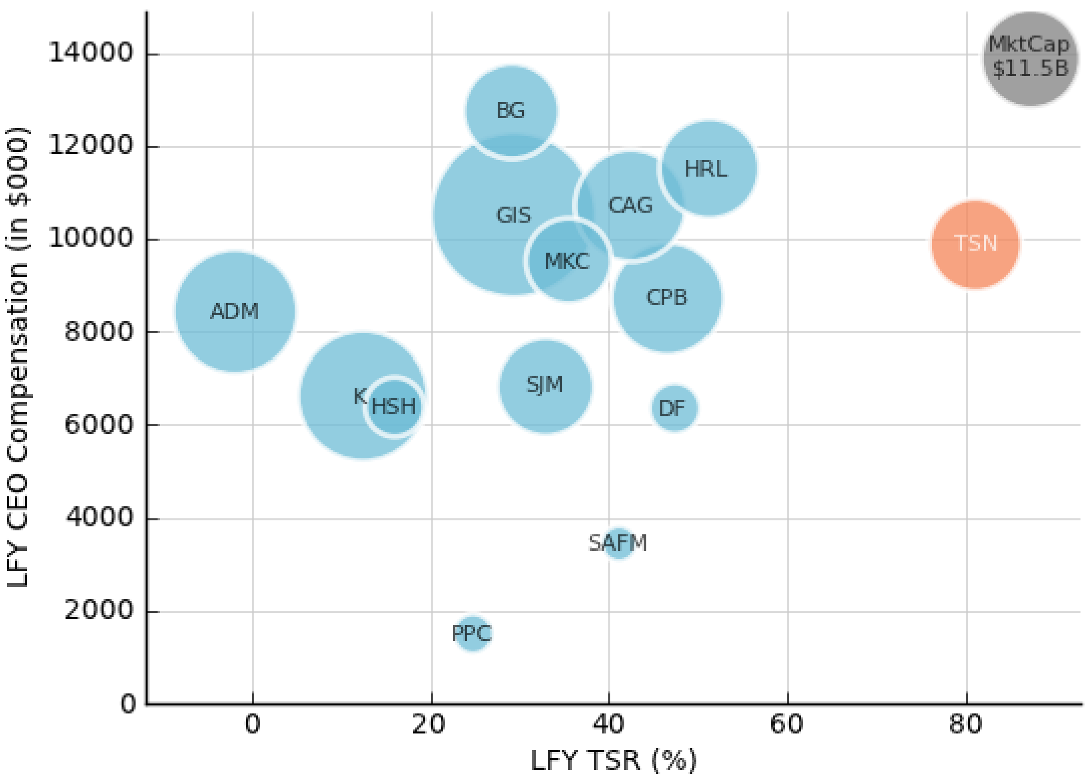
| NAMED EXECUTIVE OFFICERS | BASE SALARY | BONUS & NEIP | EQUITY AWARDS | TOTAL COMP |
|---|---|---|---|---|
| Donald J. Smith *President and Chief Executive Officer* | $1,041,231 | $3,717,808 | $4,039,505 | $9,871,702 |
| John H. Tyson *Chairman of the Board* | $804,000 | $3,009,654 | $2,524,932 | $7,998,352 |
| James V. Lochner *Chief Operating Officer* | $1,000,246 | $3,540,769 | $3,029,790 | $9,139,062 |
| Dennis Leatherby *Executive Vice President and Chief Financial Officer* | $571,729 | $1,470,954 | $1,110,558 | $3,563,912 |
| Donnie D. King *Senior Group Vice President, Poultry and Prepared Foods* | $596,538 | $1,557,938 | $1,171,450 | $3,588,534 |
| Noel W. White *Senior Group Vice President, Fresh Meats* | $553,058 | $1,422,917 | $1,171,450 | $3,550,385 |

**CEO to Avg NEO Pay:** 1.77: 1

## PEER GROUP REVIEW [1 2 3 4]

The Company benchmarks NEO compensation to a peer group consisting of 16 companies. Total NEO compensation is targeted at the 50th percentile of the peer group.

| | MARKET CAP | REVENUE | CEO COMP | 1-YEAR TSR | 3-YEAR TSR | 5-YEAR TSR |
|---|---|---|---|---|---|---|
| **75th PERCENTILE OF PEER GROUP** | $18.0B | $17.8B | $10.7M | 42.4% | 17.5% | 14.6% |
| **MEDIAN OF PEER GROUP** | $11.3B | $10.1B | $8.4M | 31.1% | 11.9% | 9.3% |
| **25th PERCENTILE OF PEER GROUP** | $4.1B | $5.9B | $6.4M | 22.2% | 4.1% | -3.4% |
| **COMPANY** | $10.1B (37th %ile) | $34.4B (84th %ile) | $9.9M (65th %ile) | 81.0% (Highest) | 24.6% (87th %ile) | 19.1% (84th %ile) |



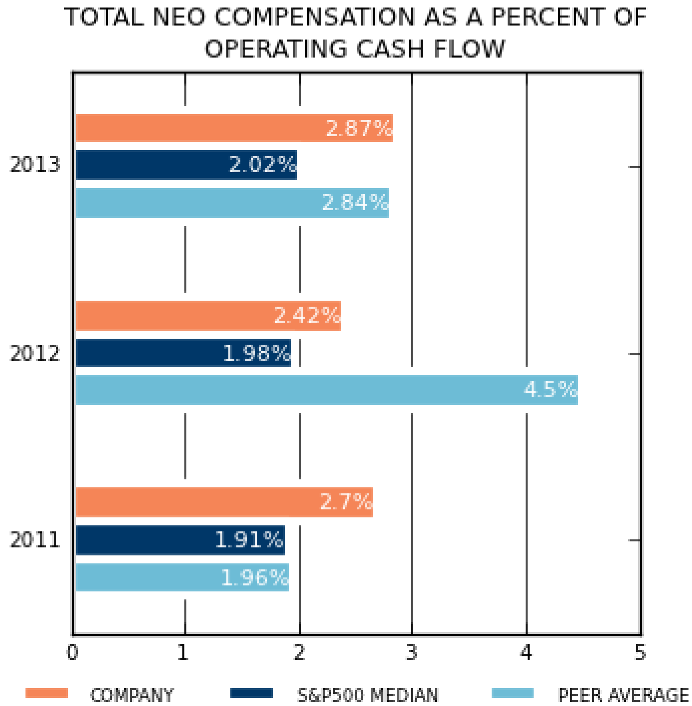

1 Market capitalization figures are as of fiscal year end dates. *Source: Capital IQ*

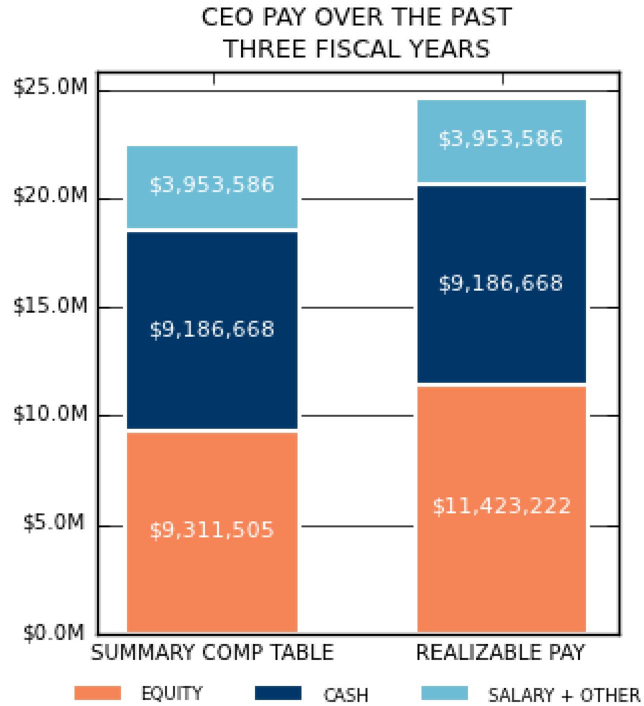
2 Annual revenue figures are as of fiscal year end dates. *Source: Capital IQ*

3 Annualized TSR figures are as of fiscal year end dates. *Source: Capital IQ*

4 Annual CEO compensation data based on the most recent proxy statement for each company.

## COST OF MANAGEMENT [1,2,3]




1 Compensation data provided by Equilar, Inc. All rights reserved. For additional information, please contact info@equilar.com.

2 Operating cash flow figures provided by Thomson One Banker and Google Finance.

3 Peer median calculated using Equilar peers, weighted based on strength of connection.

## EXECUTIVE COMPENSATION STRUCTURE - SYNOPSIS

### FIXED

Base salaries of Messrs. Tyson and Smith increased by more than 20% during the past fiscal year in connection with Mr. Tyson's new employment contract and a review of market pay levels, respectively.

### SHORT-TERM INCENTIVES

**ANNUAL INCENTIVE COMPENSATION PLAN FOR SENIOR EXECUTIVE OFFICERS**

| | |
|---|---|
| **AWARDS GRANTED (PAST FY)** | *Cash* |
| **TARGET PAYOUTS** | *$1,946,700 for the CEO and between $745,061 and $1,575,900 for each other NEO* |
| **MAXIMUM PAYOUTS** | *$10,000,000 for the CEO and between $745,061 and $10,000,000 for each other NEO* |
| **ACTUAL PAYOUTS** | *$3,717,808 for the CEO and between $745,061 and $3,009,654 for each other NEO* |

Performance is measured over one year.

Awards above threshold increase linearly up to a maximum of $10 million.

| | | **ADJUSTED EBIT** |
|---|---|---|
| **METRICS** | | Absolute |
| | Weighting | 100% |
| | Threshold Performance | $800.0M |
| | Target Performance | $1.0B |

| | |
|---|---|
| Maximum Performance | N/D |
| Actual Performance | $1.36B |

## LONG-TERM INCENTIVES

| 2000 STOCK INCENTIVE PLAN | |
|---|---|
| **AWARDS GRANTED (PAST FY)** | *Restricted stock, performance shares and stock options* |
| **TARGET PAYOUTS** | *Performance Shares: 82,644 shares for the CEO and between 22,727 and 51,652 shares for each other NEO*<br>*Restricted Stock: 51,562 shares for the CEO and between 14,204 and 32,283 shares for each other NEO* |
| **MAXIMUM PAYOUTS** | *Performance Shares: 165,289 shares for the CEO and between 45,454 and 103,305 shares for each other NEO* |
| **TIME-VESTING PAYOUTS** | *Stock Options: 256,900 shares for the CEO and between 70,600 and 160,600 shares for each other NEO* |

Restricted stock awards vest after three years if the performance hurdle is achieved in each fiscal year over the period.

Performance share performance is measured over three years.

Stock option awards vest over three years.

Stock price is tested against the compensation peer group.

**METRICS FOR RESTRICTED SHARES**

| | ANNUAL ADJUSTED EBIT |
|---|---|
| | Absolute |
| Weighting | 100% |
| Threshold Performance | $100.0M |

**METRICS FOR PERFORMANCE SHARES**

| | CUMULATIVE ADJUSTED EBIT | STOCK PRICE |
|---|---|---|
| | Absolute | Relative |
| Weighting | 50% | 50% |
| Threshold Performance | 80% of target | Outperform 4 peers |
| Target Performance | N/D | Outperform 8 peers |
| Maximum Performance | 140% of target | Outperform 12 peers |

# GLASS LEWIS ANALYSIS

This proposal seeks shareholder approval of a non-binding, advisory vote on the Company's executive compensation. Glass Lewis believes firms should fully disclose and explain all aspects of their executives' compensation in such a way that shareholders can comprehend and analyze the company's policies and procedures. In completing our assessment, we consider, among other factors, the appropriateness of performance targets and metrics, how such goals and metrics are used to improve Company performance, the peer group against which the Company believes it is competing, whether incentive schemes encourage prudent risk management and the board's adherence to market best practices. Furthermore, we also emphasize and evaluate the extent to which the Company links executive pay with performance.

## OVERALL STRUCTURE : FAIR

We note the following concerns with the structure of the Company's compensation programs:

***Narrow Performance Conditions***
The Company's short- and long-term incentive arrangements are based on similar metrics, which allows for a high level of pay-out (or lack thereof) for hitting similar targets. We believe the best compensation policies are based on a variety of performance metrics, which better gauge a Company's overall financial health and performance.

***Unchallenging Performance Targets***

Under the LTI plan, executives become eligible to receive awards if the Company's relative stock price the 50th percentile of the designated peer group over the performance period. As such, NEOs are rewarded even if the Company underperforms the market. We believe incentive plans should at the very least require performance at the benchmark median before rewarding NEOs.

***Performance Period of Long-Term Awards***
Some of the performance-based awards granted under the Company's long-term incentive plan have a performance period of less than two years. Although earned awards are subject to additional vesting periods, given the short performance period, these awards represent only a marginal improvement over regular time-vesting awards and fail to fully reflect the long-term performance of the Company.

***No Clawback Provision***
To the best of our knowledge, the Company's incentive plans currently lack a clawback provision, whereby any bonus awarded may be recouped by the Company in the event of material fraud or misconduct by the recipient of a bonus award. We believe emerging best practice has come to promote the use of clawback provisions to safeguard against the receipt of unwarranted bonuses and to similarly encourage executives and senior management to take a more comprehensive view of risk when making business decisions. In addition, we note that the 2010 Dodd-Frank Act requires the SEC to direct securities exchanges and associations to prohibit the listing of any issuer that does not adopt a policy to recover erroneously awarded incentive-based compensation (H.R. 4173, Sec. 954). However, at the time this report was written, the SEC had not finalized the rules regarding clawback policies.

***Excessive Executive Focus on Short-Term Performance***
During the past fiscal year, short-term bonuses for NEOs totaled $14,720,040 while long-term incentive awards were worth an aggregate of $13,047,685. Although we note that awards feature a more appropriate weighting towards LTI awards based on target values, the high STI limits may unduly emphasize short-term performance. We believe this allocation does not appropriately balance short- and long-term variable pay for NEOs. In our opinion, compensation levels with a heavier weighting of long-term incentive awards discourage risky or short-sighted strategies and encourage a long-term focus among executives.

***Change of Control Provisions***
We are concerned that the Company provides immediate vesting of certain equity awards upon a change in control of the Company. This provision may discourage potential buyers from making an offer for the Company both because the purchase price will be higher and because substantial numbers of employees may earn significant amounts of money and decide to leave their positions with the Company. In short, we believe that this sort of provision may lower the chances of a deal, lower the premium paid to shareholders in a takeover transaction or both.

## OVERALL DISCLOSURE : FAIR

We note the following concern with the Company's disclosure with regard to its compensation policies and procedures:

***Performance Goals Not Disclosed***
The Company has failed to provide a clear description of maximum adjusted EBIT goal under the STI plan and the adjusted EBIT conditions under the LTI plan. We believe clearly defined performance targets are essential for shareholders to fully understand and evaluate the Company's procedures for quantifying performance into payouts for its executives. In this case, we note that the Company considers the long-term cumulative adjusted EBIT targets to be commercially sensitive, alleviating some cause for concern.

## 2013 PAY FOR PERFORMANCE : D

The Company has been deficient in linking executive pay to corporate performance, as indicated by the "D" grade received by the Company in Glass Lewis' pay-for-performance model. Shareholders should be concerned with this disconnect. A properly structured pay program should motivate executives to drive corporate performance, thus aligning executive and long-term shareholder interests. In this case, as indicated by the poor grade, the Company has not implemented such a program. In our view, shareholders should be concerned with the compensation committee's failure in this area.

## CONCLUSION

Overall, the Company maintains an acceptably designed executive compensation program and has provided adequate disclosure with respect to its compensation practices and incentive plans.

We believe that shareholders should take note of several potentially problematic features of the Company's incentive plans. Although the short-term incentive plan appears to be reasonable at target levels, shareholders should take note of the sizable maximum bonus achievable. The $10 million maximum award represents almost 925% of Mr. Smith's base salary as of the fiscal year end, and a proportionally larger percentage for all other executives. The high limits, coupled with the simple performance conditions, may result in bonuses that are not necessarily commensurate with actual achievement. These high incentive limits maybe have contributed to the excessive proportion of short-term compensation to overall NEO pay during the past fiscal year. We do recognize that the Company is controlled and, as such, it is reasonable to expect NEOs, particularly Mr. Tyson, to have the long-term interests of the Company in mind. The issue is compounded, however, by the use of adjusted EBIT targets in every performance-based component of the incentive plans. In this case, the restricted share performance hurdles is relatively low, set at one-eighth the performance threshold for STIP awards.

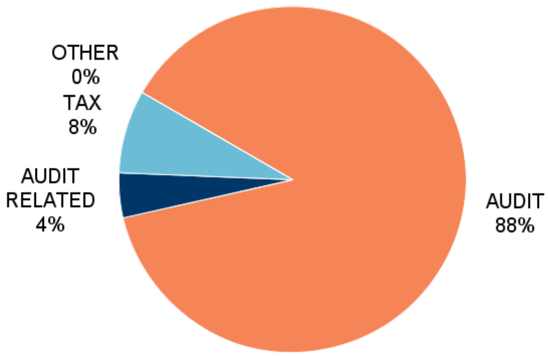
Shareholders should also be aware of the high level of perquisites granted to the NEOs. Mr. Smith has received some $156,000 in tax reimbursements, event tickets and personal aircraft use during the past fiscal year, which we consider to be fairly high. Such benefits are not exclusive to the CEO, as several NEOs have received substantial such sums. More notably, Mr. Tyson received approximately $1.27 million in perquisites, including the aforementioned benefits (with over $1 million in personal aircraft use) plus security and automobile benefits. Especially given the lack of a cogent justification of the necessity of these payments, we are not certain that they represent the best use of Company resources.

As noted in our pay-for-performance analysis, executive compensation and corporate performance were not aligned at the Company. This disconnect, however, was not severe and the Company utilizes objective incentive plans that we believe are adequately structured to align pay with performance going forward.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

# 3.00: RATIFICATION OF AUDITOR

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Ratification of PricewaterhouseCoopers | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT:** | 99.8%; Approved | **FOR-** NO CONCERNS | |
| **BINDING/ADVISORY:** | Advisory | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |
| **AUDITOR OPINION:** | Unqualified | | |




## AUDITOR FEES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Audit Fees:** | $4,003,531 | $3,796,125 | $3,380,341 |
| **Audit-Related Fees:** | $188,400 | $183,400 | $178,400 |
| **Tax Fees:** | $348,074 | $311,817 | $388,455 |
| **All Other Fees:** | $3,600 | $3,600 | $3,600 |
| **Total Fees:** | $4,543,605 | $4,294,942 | $3,950,796 |
| **Auditor:** | Pricewaterhouse Coopers | Pricewaterhouse Coopers | Pricewaterhouse Coopers |

| | |
|---|---|
| **Years Serving Company:** | 4 |
| **Restatement in Past 12 Months:** | No |
| **Alternate Dispute Resolution:** | No |
| **Auditor Liability Caps:** | No |

## GLASS LEWIS ANALYSIS

The fees paid for non-audit-related services are reasonable and the Company discloses appropriate information about these services in its filings.

Accordingly, we recommend that shareholders vote **FOR** the ratification of the appointment of PricewaterhouseCoopers as the Company's auditor for fiscal year 2014.

# 4.00: SHAREHOLDER PROPOSAL REGARDING GESTATION CRATES

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the Company report the possible risks and operational impacts associated with allowing the indefinite use of gestation crates | **SHAREHOLDER PROPONENT:** | The Humane Society of the United States, Green Century Capital Management and the United Methodist Church Benefit Board |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT:** | N/A | **REQUIRED TO APPROVE:** | Majority of votes cast (with the holders of Class A and B shares voting as a single class) |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**

**ABSTAIN -**
- This proposal has been withdrawn due to corporate commitments

## GLASS LEWIS REASONING

- Due to recent Company commitments, the proponents of this proposal have agreed to withdraw this shareholder proposal.

## PROPOSAL SUMMARY

Text of Resolution- *RESOLVED, that shareholders request that, within six months of the 2014 annual meeting, the Board of Directors provide a report to shareholders, prepared at reasonable cost and omitting proprietary information, detailing the possible risks and operational impacts associated with allowing the indefinite use of "gestation crates" in Tyson's supply chain. The report should detail–using peer-reviewed data, when possible–all potential risks and impacts, including those regarding brand reputation, customer relations, public perception, and regulatory compliance.*

**Proponent's Perspective**

- Gestation crates are cages, used in the Company's supply chain, which confine pigs so restrictively they're unable to turn around;
- Dozens of top global food brands, including the Company's customers, are demanding changes in response to concerns over the use of gestation crates;
- The Company's failure to disclose the risk associated with the indefinite inclusion of gestation crates in its supply chain is of concern to shareholders;
- Carl Icahn stated that eliminating gestation crates "will both prevent cruelty to animals, and improve Tyson's business prospects'"
- Nearly 60 leading global pork buyers have publicly announced plans to eliminate gestation crates from their supply chains, including McDonald's, Burger King, Costco, Safeway, Kroger, Oscar Mayer and dozens more and the Company has already lost business over its position on this issue;
- The Company's competitors are actively moving away from the use of gestation crates;
- Nine U.S. states have passed legislation banning gestation crates;
- An Iowa State University study found that a production system without gestation crates resulted in a cost "that was 11% less than the cost" of the gestation crate system;
- Animal welfare and industry experts have raised concerns regarding gestation crates; and
- The World Bank's International Finance Corporation stated that in the case of animal welfare, "failure to keep pace with changing consumer expectations and market opportunities could put companies and their investors at a competitive disadvantage in an increasingly global marketplace."

On December 23, 2013, the proponents of this proposal filed an exempt solicitation with the SEC further detailing their rationale for this proposal.

On December 30, 2013, the proponents of this proposal filed an additional exempt solicitation with the SEC detailing their rationale for this proposal.

**Board's Perspective**

- From a practical standpoint, it is impossible to know all the potential risks and impacts related to any practice, but business risks are assessed on a regular basis and reported to the Company's shareholder when such risks rise to the level that they could materially adversely affect the Company's business, financial condition or result of operations;
- Animal experts acknowledge that both individual and group sow housing systems have advantages and disadvantages when it comes to animal well-being and choosing one method exclusive of all other methods is short-sighted and discourages the development of better methods of housing pigs;
- The Company buys hogs to produce pork from 3,000 independent farmers and the Company's position on housing for mother pigs on independent farms is in line with the stated position of most other U.S. pork processors, in that it does not dictate the kind of housing used by these independent farmers;
- The Company expects farmers supplying hogs for pork products to operate consistent with its Core Values, which includes an obligation to serve as good stewards of the animals that it depends on to operate;
- In 2000, the Company created an office of animal well-being, which primarily focused on the proper treatment of the live animals at its processing plans, and in 2012 this effort expanded to the farms that supply the Company with the development of the Tyson FarmCheck program, which involves animal well-being audit of those farms;
- The Company supports the right of independent farmers to know and choose how to raise animals they supply to the Company, consistent with its Core Values and established scientific research related to animal welfare, encourages research in alternative sow housing systems and continues to look at all options available to independent farmers that provide hogs it buys to produce its pork products.

## GLASS LEWIS ANALYSIS

Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to the Company's animal welfare policies. More specifically, we believe the Company should consider its exposure to regulatory, legal and reputational risk due to its animal welfare policies and practices. As has been seen relating to other environmental, social and governance issues, including the treatment of animals, failure to take action on certain issues may carry the risk of damaging negative publicity. A high profile campaign launched against the Company could result in a decreased customer base and potentially costly litigation.

***Background***

Gestation crates are enclosures that pork producers commonly use to house female breeding pigs. These crates typically measure two feet by seven feet, leaving the enclosed sows little room for movement. As of 2012, an estimated 90% of the 6 million sows in the U.S. are housed in gestation crates (Tim Carman. "Pork Industry Gives Sows Room to Move." *Washington Post*. May 29, 2012). This practice has come under the scrutiny of lawmakers and animal activists due to the health risks and potential abuse faced by these crated sows. According to the Humane Society of the United States, one of the proponents of this Proposal, sows housed in gestation crates face an increased risk of urinary tract infections, weakened bones, overgrown hooves, lameness, behavioral restriction and stereotypes ("An HSUS Report: Welfare Issues with Gestation Crates for Pregnant Sows." The Humane Society of the United States).

***Legislation Against and Private Actions Concerning the Use of Gestation Crates***

There have been numerous recent efforts to stop the practice of housing sows in gestation crates. From a legislative perspective, the European Union and many U.S. states, including Florida, Arizona, Oregon, Colorado, California, Maine, Michigan and Ohio, have set bans on the use of gestation crates ("An HSUS Report: Welfare Issues with Gestation Crates for Pregnant Sows." The Humane Society of the United States). In fact, according to an exempt solicitation filed by the proponent of this proposal, nearly 60 pork purchasing companies have announced that they will eliminate the use of gestation crates from their supply chains. For example, in 2007, Smithfield Foods and Hormel Foods have both promised to end the use of gestation crates in the facilities they own by 2017 and as of 2012, Cargill is 50% crate-free (Stephanie Strom. "McDonald's Set to Phase Out Suppliers' Use of Sow Crates." *New York Times*. February 13, 2012). Additionally, in February 2012, McDonald's Corporation announced in a press release that it would begin working with its pork suppliers to phase out their use of gestational crates. As a part of this phasing out process, McDonald's has asked its five direct suppliers of bacon, Canadian bacon and sausage to provide their plans for reducing reliance on sow stalls. While McDonald's buys only 1% of the total pork production in the U.S., it has a significant influence on the market. For example, when McDonald's required its egg suppliers to increase the size of their hen cages in 1999, other fast-food chains followed suit and soon the vast majority of egg producers had given their chickens more space (Stephanie Strom. "McDonald's Set to Phase Out Suppliers' Use of Sow Crates." *New York Times*. February 13, 2012). In addition to McDonald's, Burger King, Costco, Safeway, Kroger and Oscar Mayer have all set timetables for a formal ban on the use of gestation crates (David Knowles. "Tyson Foods Shareholders Pressure Company to Eliminate Use of 'Cruel' Pig Gestation Crates." *New York Daily News*. August 16, 2013). Denny's, Wendy's and CKE Restaurants Inc. (which owns Carl's Jr. and Hardee's) have also set timetables for the elimination of the use of gestation crates in their supply chains (Tiffany Hsu. "Carl's Jr. Hardee's Parent CKE to Nix Cramped Pig Crates by 2022." *Los Angeles Times*. July 6, 2012).

Companies' recent actions in phasing out their use of gestation crates may be unsurprising, given the potential risks associated with public perceptions of animal cruelty. A 2008 Citigroup report referred to animal cruelty concerns as a "potential headline risk that could tarnish the image of restaurant companies" and research group Technomic found that restaurant patrons consider animal welfare to be the third most important social issue, behind health insurance and living wages (Tiffany Hsu. "Animal Cruelty: Why McDonald's, In-N-Out, Wall Street Now Say No." *Los Angeles Times*. August 23, 2012).

We recognize that phasing out the use of gestation crates could be an expensive undertaking. Smithfield Farms estimates that it will cost $300 million to convert all company-owned farms to group housing for sows and a 2010 study estimated that it would cost the pork industry between $1.87 billion and $3.24 billion to convert to group housing (Tim Carman. "Pork Industry Gives Sows Room to Move." *Washington Post*. May 29, 2012). Despite these costs, Smithfield has embraced this business decision, which was based on input from its customers. According to the president and CEO of Smithfield Foods, although "these projects require a significant investment on the part of [its] growers,...a well planned renovation to a group housing system will maintain the farms' value for years to come, while at the same time supporting [Smithfields'] commitment to animal care" ("Smithfield Extends Recommendation on Group Housing." *PorkNetwork*. January 7, 2014).

***Academic Research Regarding the Use of Gestation Crates***

The use of gestation crates could place companies at a financial disadvantage from an operational perspective. Several academic studies have found a negative correlation between the use of gestation crates and the costs of weaned pigs as well as the overall welfare of the pigs. A 2008 study on the Impact of Gestation Housing System on Weaned Pig Production Cost by researchers at Iowa State University suggests that the use of group housing may be more cost effective than that of gestation crates in pork production. The researchers found that "the group housing in hoop barns [traditional group barn systems] for gestation resulted in a weaned pig cost that was 10% less than the cost of a weaned pig from the individual stall confinement system [gestation crates]." In addition, a 1997 report of the Scientific Veterinary Committee of the European Union stated that "overall welfare appears to be better when sows are not confined throughout gestation, sows should preferably kept in groups." Further, a 2008 Pew Commission on Industrial Farm Animal Production recommended, after extensive research, "the phase-out, within 10 years, of all intensive confinement systems that restrict natural movement and normal behaviors, including swine gestation crates" (Tim Carman. "Pork Industry Gives Sows Room to Move." *Washington Post*. May 29, 2012).

Other researchers have a more positive or neutral view of the use of gestation crates. A 2004 report by the U.S. Department of Agriculture found that "gestation stalls or well-managed pens generally...produced similar states of welfare for pregnant [females] in terms of physiology, behavior performance, and health." Further, both the American Veterinary Medical Association and the American Association of Swine Veterinarians recognize gestation crates as valid animal husbandry tools (Tim Carman. " Pork Industry Gives Sows Room to Move." *Washington Post*. May 29, 2012). Additionally, Purdue University's Food Animal Education Network states that sows housed in gestation crates show reduced levels of aggressive behaviors, and pig farmers are allowed to employ more precise individual feeding management to these pigs. Further, according to Mark Estienne, a swine research physiologist at Virginia Tech's Agricultural Research and Extension Center, group-housed sows gained more weight but display more severe injuries and those placed in gestation crates had higher levels of cortisol- a hormone often triggered by stress- but also higher pregnancy rates. Estienne ultimately concludes that the "overall welfare was similar" for those sows that were group housed and those that were placed in gestation crates (Philip Walzer. " Best for Pig Breeding: Crates or Group Pens?" *Virginian-Pilot*. January 30, 2011).

***Animal Welfare-Related Issues at the Company***

While not directly related to its use of gestation crates, the Company has recently suffered from several animal welfare-related controversies. In May 2012, an undercover video of an Itoham Food's Inc. facility in Wyoming that allegedly supplied the Company showing pregnant sows in undersized cages and animal abuse was released. In response to these allegations, the Company stated that it did not buy any hogs raised on this farm for its pork-processing plans and that it had "a small, but separate hog-buying business that buys aged sows," but that these animals "are subsequently sold to other companies are not used in Tyson's pork-processing business" (Jack Kaskey. "Tyson Supplier Itoham Abuses Wyoming Pigs, Humane Society Says." *Bloomberg Businessweek*. May 8, 2012). However, despite the Company's assertion that it does not process the hogs purchased from this facility, it announced that it would stop purchases from the pork producer pending an investigation (Monica Eng. " Video of Animal Abuse Prompts Tyson to Halt Sow Purchases Pending Investigation ." *Chicago Tribune*. May 8, 2012).

Further, in November 2013, an undercover video of an Oklahoma park farm that acted as a supplier for the Company was released by animal rights group, Mercy for Animals. The video shows short clips of men "grabbing piglets by their hind legs and smashing their heads to the ground to kill them" as well as images of men "kicking pigs in the face and hitting the animals with boards and a bowling ball." Immediately following the release of its video, the Company stated that that it was "extremely disappointed by the mistreatment shown in the video" and that it "will not tolerate this kind of animal mishandling." The Company further stated that it was immediately terminating its contract with this farmer and that it would take possession of the animals remaining on the farm (Matt Pearce. " Tyson Cuts Ties with Pig Farm After Brutally Graphic Video Shows Abuse." *Los Angeles Times*. November 20, 2013).

The increased scrutiny placed on the Company's animal welfare practices as a result of these undercover videos has even further highlighted the Company's continued reliance on the use of gestation crates. Moreover, a s a result of the Company's policies on this issue, it could face significant financial and reputational repercussions. For example, according to an exempt solicitation filed by one of the proponents, at least one large food service company and one top, international fast food chain have ended their pork business with the Company as a result of its current position on the issue of gestation crates. However, we note the proponent has not provided any independent corroboration regarding this claim. Moreover, despite significant investor concern and engagement on this issue, the Company has not appeared to be as responsive as its peers to concerns regarding its use of gestation crates. As discussed in more detail in Proposal 1, the CEO of the Humane Society launched a bid for a seat on the Company's board due to its inaction on this issue. This bid received the backing of shareholder activist Carl Icahn, who stated that eliminating gestation crates "will both prevent cruelty to animals, and will improve Tyson's business prospects by putting the company on an equal competitive footing with the bulk of the industry that is already rejecting gestation crates" (" HSUS and Pacelle Take Gestation Crate Fight to

Tyson Board Room." *Oklahoma Farm Report*. October 2, 2012).

***Company Disclosure***

Regarding the Company's disclosure of animal well-being initiatives, generally, the Company discusses its FarmCheck program, which is a "comprehensive initiative covering all [of its] livestock and poultry suppliers." This program relies on the use of third-party auditors to check farms for issues such as animal access to food and water, as well as proper human-animal interaction and worker training. It states that it has also established an Animal Well-Being Advisory Committee that includes experts in the fields of farm animal behavior, health, production and ethics.

The Company identifies its use of gestation crates (or "gestation stalls") as one of the key animal well-being issues raised by its stakeholders in its 2012 Sustainability Report. Regarding this issue, the Company provides the following statement:

> *Gestation Stalls for Sows – We make animal well-being decisions based on best available scientific research and the recommendations of animal well-being experts in the industry. Current information indicates there are several types of production systems that are favorable for pigs, including open pens, individual housing, and open pasture. According to published studies, the most important consideration is the individual care given to each animal and the caretaker's management and husbandry skills, regardless of the system used. Furthermore, the American Veterinary Medical Association and the American Association of Swine Veterinarians have reviewed the existing scientific literature on gestational sow housing and have published position statements concluding that, individual and group housing systems both have advantages and disadvantages. We're committed to humane animal treatment at all stages of food production and we expect the same from farms that supply us with livestock. In early 2012, we called on the hog farming industry to accelerate research into improved housing and production practices. We urge this research be completed as soon as possible in order to address questions and market demands.*

The Company also states that it relies on independent farmers to supply most of the livestock needed for its pork products and that it does support continued improvements in the way they're managed, including the type of housing used for pregnant sows. The Company states that many of the farmers who supply it use gestation crates, while others use other types of housing. The Company asserts that it "challenge[s] the farming community to develop improved systems [of housing systems]." and that, with the support of its FarmCheck Program Animal Well-Being Advisory Panel and other experts, it will work directly with its supply chain "to ensure continuous improvements are made for the advancement of the well-being of pigs raised for Tyson Foods."

***Update and Conclusion***

On January 9, 2014, the Company sent a letter to its suppliers urging the following:

- Increase the number of third-party sow farm audits conducted through the Company's FarmCheck program;
- The use of video monitoring in hog producers' sow farms to increase oversight and decrease biosecurity risks;
- Ending manual blunt force as a primary method of euthanizing sick or injured piglets;
- Support for the use of pain mitigation (such as anesthetic or analgesic) for tail docking and castration of piglets; and
- The improvement of housing for pregnant sows by focusing on the quality and quantity of space provided, including using all future sow barn construction or remodeling to allow for pregnant sows of all sizes to stand, lie down, stretch their legs and turn around.

Animal rights groups have appeared to be encouraged by the Company's recent announcement. Mercy for Animals, the animal rights group that released the most recent undercover video of a Company supplier stated that it was "heartening that Tyson has finally begun to address the rampant and horrific cruelty uncovered at its factory farm facilities," and that this recent announcement "signals an important new era and direction for the company." However, the group encouraged the Company "to add more teeth to the new guidelines by making them a mandate for all of its pork producers, rather than a mere recommendation" (Anna Schecter. "Tyson Foods Changes Pig Care Policies After NBC Shows Undercover Video." *NBC News*. January 9, 2014). The Humane Society of the United States, one of the proponents of this proposal, had similar sentiments. According to the Humane Society, although the letter "does not mandate anything of its suppliers with regard to sow housing, nor does it outline any time-line by which alternative housing systems must be in place," the Company's announcement is a "big movement from an important company." Further, as a result of this recent announcement, the Humane Society announced that it had withdrawn this shareholder proposal (Wayne Pacelle. "Even More Progress for Pigs in Gestation Crates." The Humane Society of the United States. January 9, 2014). As a result, shareholders will not have an opportunity to vote on this item at the Company's 2014 annual meeting.

Accordingly, we recommend that shareholders **ABSTAIN** from voting on this proposal.

# COMPETITORS / PEER COMPARISON

| | TYSON FOODS, INC. | PILGRIM'S PRIDE CORPORATION | CAMPBELL SOUP COMPANY | HORMEL FOODS CORPORATION |
|---|---|---|---|---|
| **Company Data (MCD)** | | | | |
| Ticker | TSN | PPC | CPB | HRL |
| Closing Price | $33.67 | $16.48 | $42.15 | $44.88 |
| Shares Outstanding (mm) | 343.8 | 259.0 | 315.0 | 263.7 |
| Market Capitalization (mm) | $11,634.8 | $4,175.5 | $13,416.4 | $11,812.4 |
| Enterprise Value (mm) | $12,929.8 | $4,760.1 | $17,945.4 | $11,633.9 |
| Latest Filing (Fiscal Period End Date) | 09/28/13 | 09/29/13 | 10/27/13 | 10/27/13 |
| **Financial Strength (LTM)** | | | | |
| Current Ratio | 1.9x | 2.4x | 0.6x | 2.6x |
| Debt-Equity Ratio | 0.39x | 0.67x | 3.60x | 0.08x |
| **Profitability & Margin Analysis (LTM)** | | | | |
| Revenue (mm) | $34,374.0 | $8,553.5 | $8,012.0 | $8,751.7 |
| Gross Profit Margin | 6.9% | 8.3% | 36.7% | 16.1% |
| Operating Income Margin | 4.0% | 6.2% | 14.4% | 9.1% |
| Net Income Margin | 2.3% | 5.0% | 4.8% | 6.0% |
| Return on Equity | 13.8% | 38.1% | 51.6% | 17.3% |
| Return on Assets | 7.1% | 11.1% | 8.1% | 10.5% |
| **Valuation Multiples (LTM)** | | | | |
| Price/Earnings Ratio | 14.6x | 9.7x | 21.2x | 23.0x |
| Total Enterprise Value/Revenue | 0.4x | 0.6x | 2.2x | 1.3x |
| Total Enterprise Value/EBIT | 9.4x | 8.9x | 15.6x | 14.7x |
| **Growth Rate* (LTM)** | | | | |
| 5 Year Revenue Growth Rate | 5.1% | 0.0% | -0.1% | 5.3% |
| 5 Year EPS Growth Rate | 57.3% | - | 2.8% | 13.4% |
| **Stock Performance (MCD)** | | | | |
| 1 Year Stock Performance | 71.0% | 103.7% | 19.9% | 30.1% |
| 3 Year Stock Performance | 94.9% | 148.5% | 22.4% | 80.7% |
| 5 Year Stock Performance | 315.8% | - | 45.3% | 195.3% |

Source: Capital IQ

MCD (Market Close Date): Calculations are based on the period ending on the market close date, 12/20/13.
LTM (Last Twelve Months): Calculations are based on the twelve-month period ending with the Latest Filing.
*Growth rates are calculated based on a compound annual growth rate method.
A dash ("-") indicates a datapoint is either not available or not meaningful.

# VOTE RESULTS FROM LAST ANNUAL MEETING FEBRUARY 1, 2013

Source: 8-K dated February 5, 2013

## ELECTION OF DIRECTORS

| NO. | PROPOSAL | VOTES WITHHELD/AGAINST | GLC REC |
|---|---|---|---|
| 1.1 | Elect John Tyson | 0.81% | For |
| 1.2 | Elect Kathleen Bader | 0.15% | For |
| 1.3 | Elect Gaurdie Banister, Jr. | 0.14% | For |
| 1.4 | Elect Jim Kever | 0.64% | For |
| 1.5 | Elect Kevin McNamara | 0.56% | For |
| 1.6 | Elect Brad Sauer | 0.89% | For |
| 1.7 | Elect Robert Thurber | 0.55% | For |
| 1.8 | Elect Barbara Tyson | 0.22% | For |
| 1.9 | Elect Albert Zapanta | 0.25% | For |

## EXECUTIVE COMPENSATION

| NO. | FOR | AGAINST | ABSTAIN | BROKER NON-VOTES | 1 YEAR | 2 YEARS | 3 YEARS | GLC REC |
|---|---|---|---|---|---|---|---|---|
| 2.0 | Amendment to the 2000 Stock Incentive Plan | | | | | | | |
| | 822,201,755 | 84,813,669 | 744,944 | 26,007,092 | N/A | N/A | N/A | For |
| 3.0 | Amendment to the Employee Stock Purchase Plan | | | | | | | |
| | 901,471,960 | 5,563,588 | 724,820 | 26,007,092 | N/A | N/A | N/A | For |

## OTHER ITEMS

| NO. | PROPOSAL | FOR | AGAINST | ABSTAIN | BROKER NON-VOTES |
|---|---|---|---|---|---|
| 4.0 | Ratification of Auditor | 932,251,255 | 831,931 | 684,274 | N/A |

# APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

## DISCLOSURES

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For information on Glass Lewis' policies and procedures regarding conflicts of interests, please visit: http://www.glasslewis.com/

## LEAD ANALYSTS

| | |
|---|---|
| **Shareholder Proposals:** | Courteney Keatinge |
| **Governance:** | Katherine Chen |

## EQUILAR PEERS VS PEERS DISCLOSED BY COMPANY

| EQUILAR | TSN |
|---|---|
| Smithfield Foods* | Archer Daniels Midland |
| Pilgrim's Pride* | Heinz H. J. |
| Hormel Foods* | Hillshire Brands |
| Dean Foods* | Mondelez International, Inc. |
| Campbell Soup* | Sanderson Farms |
| Conagra Foods* | |
| Hershey | |
| McCormick* | |
| Kellogg* | |
| Bunge* | |
| General Mills* | |
| Reynolds American | |
| Dr. Pepper Snapple Group | |
| Smucker J. M.* | |
| Colgate Palmolive | |

**ALSO DISCLOSED BY TSN*