Cardiovascular Systems Inc
Form S-3/A
October 25, 2013
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As filed with the Securities and Exchange Commission on October 25, 2013

Registration No. 333-191768

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CARDIOVASCULAR SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**No. 41-1698056**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

651 Campus Drive

St. Paul, Minnesota 55112-3495

(651) 259-1600

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Laurence L. Betterley

Chief Financial Officer

Cardiovascular Systems, Inc.

651 Campus Drive

St. Paul, Minnesota 55112-3495

(651) 259-1600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of all communications to:

Robert K. Ranum, Esq.

Alexander Rosenstein, Esq.

Fredrikson & Byron, P.A.

200 South Sixth Street, Suite 4000

Minneapolis, MN 55402

Fax: (612) 492-7077

Approximate date of commencement of proposed sale to the public: From time to time after the effectiveness of the Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Share**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Common Stock, $0.001 par value per share(3)				
Preferred Stock(4)				
Warrants(5)				
Debt securities(6)				

Units(7)				
Total	N/A	N/A	$75,000,000 (1)	$9,660 (2)

(1) In no event will the aggregate offering price of all securities issued from time to time by the registrant under this registration statement (Securities) exceed $75,000,000.00 or its equivalent in any other currency, currency units, or composite currency or currencies. The Securities covered by this registration statement may be sold separately, together, or as units with other Securities registered under this registration statement.

(2) Previously paid. The proposed maximum aggregate price of the Securities has been estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act. Pursuant to Rule 457(p) under the Securities Act, $2,148 remaining of the filing fee previously paid with respect to $18,500,000 of unsold securities that were registered pursuant to a Registration Statement on Form S-3 (No. 333-174681) filed by the registrant on June 3, 2011 is being carried forward in connection with this Registration Statement.

(3) Subject to note (1), the Securities being registered in this registration statement consist of such an indeterminate amount of common stock (with accompanying purchase rights, if any), as may be sold, from time to time, at indeterminate prices, by the registrant.

(4) Subject to note (1), the Securities being registered in this registration statement consist of such an indeterminate number of shares of preferred stock (with accompanying purchase rights, if any) as may be sold from time to time at indeterminate prices by the registrant. In addition, the Securities being registered in this registration statement also consist of such an indeterminate amount of common stock (with accompanying purchase rights, if any) (i) as may be issuable or deliverable upon conversion of shares of preferred stock, and (ii) as may be required for delivery upon conversion of shares of preferred stock as a result of anti-dilution provisions.

(5) Subject to note (1), the Securities being registered in this registration statement consist of such an indeterminate amount and number of warrants, representing rights to purchase common stock, preferred stock and debt securities registered under this registration statement as may be sold from time to time at indeterminate prices by the registrant. In addition, the Securities being registered in this registration statement also consist of such an indeterminate amount of common stock and preferred stock (in each case, with accompanying purchase rights, if any) and debt securities (i) as may be issuable or deliverable upon exercise of warrants and (ii) as may be required for delivery upon exercise of any warrants as a result of anti-dilution provisions.

(6) Subject to note (1), the Securities being registered in this registration statement consist of such an indeterminate amount of debt securities as may be sold from time to time at indeterminate prices by the registrant. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate initial offering price not to exceed $75,000,000.00. In addition, the Securities being registered in this registration statement also consist of such an indeterminate amount of common stock and preferred stock (in each case, with accompanying purchase rights, if any) (i) as may be issuable or deliverable upon the exercise or conversion of debt securities and (ii) as may be required for delivery upon exercise or conversion of debt securities as a result of anti-dilution.

(7) Subject to note (1), the Securities being registered in this registration statement consist of such an indeterminate amount of units, consisting of one or more shares of common stock, shares of preferred stock, warrants, debt securities, or any combination of such securities, as may be sold from time to time at indeterminate prices by the registrant.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

This Registration Statement is being filed to register the offer and sale by the Registrant from time to time of shares of its common stock; shares of its preferred stock in one or more series; warrants to purchase its common stock, preferred stock or debt securities; its debt securities, which may consist of notes, debentures or other types of debt; and units consisting of any combination of such securities.

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Information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED OCTOBER 25, 2013

PROSPECTUS

CARDIOVASCULAR SYSTEMS, INC.

$75,000,000

Common Stock

Preferred Stock

Warrants

Debt Securities

Units

The securities covered by this prospectus may include shares of our common stock; shares of preferred stock; warrants to purchase shares of our common stock, preferred stock and/or debt securities; debt securities consisting of debentures, notes or other evidences of indebtedness; or units consisting of any combination of such securities. We may offer the securities from time to time in one or more series or issuances directly to our stockholders or purchasers, or through agents, underwriters or dealers as designated from time to time.

This prospectus provides a general description of the securities we may offer. Each time we sell securities, we will provide specific terms of the securities offered in a supplement to this prospectus. Such a prospectus supplement may also add, update or change information contained in this prospectus. This prospectus may not be used to consummate a sale of securities unless accompanied by the applicable prospectus supplement. We will sell these securities directly to our stockholders or to purchasers or through agents on our behalf or through underwriters or dealers as designated from time to time. If any agents or underwriters are involved in the sale of any of these securities, the applicable prospectus supplement will provide the names of the agents or underwriters and any applicable fees, commissions or discounts.

Our common stock is traded on the Nasdaq Global Market under the symbol CSII. On October 23, 2013, the closing price of our common stock was $28.84.

Investing in our securities involves risks. See Risk Factors on page 2. You should carefully read this prospectus, the documents incorporated herein, and the applicable prospectus supplement before making any investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2013

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ABOUT THIS PROSPECTUS

The securities described in this prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, we may offer to sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of $75,000,000.00. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities under this shelf registration, we will provide a prospectus supplement that will contain specific information about the terms of such offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any applicable prospectus supplement, including all documents incorporated herein by reference, together with additional information described under Where You Can Find More Information below.

We have not authorized any dealer, agent or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or an accompanying prospectus supplement. This prospectus and the accompanying prospectus supplement, if any, do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus and any accompanying prospectus supplement, if any, is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus and any accompanying prospectus supplement is delivered or securities are sold on a later date.

Unless the context otherwise requires, CSI, the Company, we, us, our and similar names refer to Cardiovascular Systems, Inc.

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OUR COMPANY

We are a medical device company focused on developing and commercializing minimally invasive treatment solutions for vascular disease. Interventional endovascular treatment of peripheral artery disease, or PAD, is our initial area of focus. PAD is caused by the accumulation of plaque in peripheral arteries, most commonly occurring in the pelvis and legs. PAD is a progressive disease, and, if left untreated, can lead to limb amputation or death.

Our primary products, the Stealth 360° PAD System (Stealth 360°), Diamondback 360° PAD System (Diamondback 360°), and Diamondback Predator 360° PAD System (Predator 360°), are catheter-based platforms capable of treating a broad range of plaque types in leg arteries both above and below the knee and address many of the limitations associated with existing treatment alternatives. We refer to the Stealth 360°, the Diamondback 360°, and the Predator 360° collectively in this prospectus as the PAD Systems. In August 2007, the U.S. Food and Drug Administration, or FDA, granted us 510(k) clearance for the use of the Diamondback 360° as a therapy in patients with PAD. We commenced commercial introduction of the Diamondback 360° in the United States in September 2007. We received 510(k) clearance of the Predator 360° in March 2009 and commenced a commercial launch in April 2009. We received 510(k) clearance of the Stealth 360° in March 2011 and commenced a commercial launch that same month. The Stealth 360° contains additional ease of use and physician control features while incorporating the orbital mechanism of action and crown configurations of the Diamondback 360° and Predator 360°. As of June 30, 2013, nearly 120,000 of our devices had been sold to leading institutions across the United States.

In October 2013, we received premarket approval (PMA) from the FDA to market our Diamondback 360° Coronary Orbital Atherectomy System (OAS) as a treatment for severely calcified coronary arteries. According to the article in Circulation entitled Patterns of Calcification in Coronary Artery Disease, significant arterial calcium is present in 38% of patients undergoing a percutaneous coronary intervention. Significant calcium contributes to poor outcomes and higher treatment costs in coronary interventions when traditional therapies are used, including a substantially higher occurrence of death and major adverse cardiac events (MACE). We began a controlled commercial launch of the Diamondback 360° Coronary OAS following our receipt of PMA approval.

In support of the PMA, we submitted to the FDA results from our ORBIT II study evaluating the safety and effectiveness of our Diamondback 360° Coronary OAS. ORBIT II demonstrated that this technology produced clinical outcomes that exceeded the trial s two primary safety and efficacy endpoints by a significant margin, within one of the most challenging patient populations. At 30 days, ORBIT II results showed patient freedom from MACE was 89.8% and procedural success was 89.1%. Excluding in-hospital MACE, procedural success was 98.6% with 97.7% of stents successfully delivered. Moreover, 92.8% of patients were free from severe angiographic complications, and core lab assessed final procedure residual stenosis was 4.7%.

In addition to the PAD Systems and the Diamondback 360° Coronary OAS, we have expanded our product portfolio through internal product development and establishment of business relationships with other medical device companies. We offer multiple accessory products designed to complement the use of the PAD Systems, and we have an exclusive distribution agreement with Asahi-Intecc Co., Ltd. to market its peripheral guidewire line in the United States.

We were incorporated as Replidyne, Inc. in Delaware in 2000. On February 25, 2009, Replidyne, Inc. completed its business combination with Cardiovascular Systems, Inc., a Minnesota corporation (CSI-MN), in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., a wholly-owned subsidiary of Replidyne (Merger Sub), and CSI-MN (the Merger Agreement). Pursuant to the Merger Agreement, Merger Sub merged with and into CSI-MN, with CSI-MN continuing after the merger as the surviving corporation and a wholly-owned subsidiary of Replidyne. At the effective time of the merger, Replidyne changed its name to Cardiovascular Systems, Inc. (CSI) and CSI-MN changed its name to CSI Minnesota, Inc. Following the merger of Merger Sub with CSI-MN, CSI-MN merged with and into CSI, with CSI continuing after the merger as the surviving corporation.

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Replidyne was a biopharmaceutical company focused on discovering, developing, in-licensing and commercializing anti-infective products.

CSI-MN was incorporated in Minnesota in 1989. From 1989 to 1997, we engaged in research and development on several different product concepts that were later abandoned. Since 1997, we have devoted substantially all of our resources to the development of the PAD Systems and our Viper line of ancillary products.

Our common stock is traded on the Nasdaq Global Market under the symbol CSII. On October 23, 2013, the closing price of our common stock was $28.84. As of October 23, 2013, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $656,031,757, based on 25,644,922 shares of outstanding common stock, of which approximately 22,747,287 shares are held by non-affiliates, and a per share price of $28.84 based on the closing sale price of our common stock on October 23, 2013.

Our principal executive office is located at 651 Campus Drive, St. Paul, Minnesota 55112. Our telephone number is (651) 259-1600, and our website is www.csi360.com. The information contained in or connected to our website is not incorporated by reference into, and should not be considered part of, this prospectus.

RISK FACTORS

Investing in our securities involves risk. You should consider the risks, uncertainties and assumptions discussed under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 filed on September 11, 2013 with the Securities and Exchange Commission (SEC), which is incorporated herein by reference, and may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. If any of these risks were to occur, our business, financial condition, and results of operations could be severely harmed. This could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

In addition, any prospectus supplement applicable to each offering of our securities will contain a discussion of the risks applicable to such an investment in us. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed under the heading Risk Factors in the applicable prospectus supplement, together with all of the other information contained or incorporated by reference in such prospectus supplement or appearing or incorporated by reference in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement and the other documents we have filed with the SEC that are incorporated herein by reference contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of CSI to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of financing needs, revenue, expenses, earnings or losses from operations, or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning product research, development and commercialization plans and timelines; any statements regarding safety and efficacy of product candidates; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. In addition, forward-looking statements may contain the words believe, anticipate, expect, estimate, intend, plan, project, will be, will continue, will result, might, or any variations of such words or other words with similar meanings.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this prospectus, any supplements to this prospectus and the documents that we reference in this prospectus with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this prospectus and any supplements to this prospectus, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities covered by this prospectus for general corporate purposes, which may include working capital, capital expenditures, research and development expenditures, repayment of indebtedness with Silicon Valley Bank and Partners for Growth described below, clinical trial expenditures, commercial expenditures, acquisitions of new technologies or businesses, and investments. Additional information on the use of net proceeds from the sale of securities covered by this prospectus may be set forth in any prospectus supplement relating to the specific offering.

Description of Indebtedness Outstanding

Loan and Security Agreement with Silicon Valley Bank

On March 29, 2010, we entered into an amended and restated loan and security agreement with Silicon Valley Bank. The agreement was amended on December 27, 2011 to increase outstanding borrowings, and subsequently amended on June 29, 2012 to modify financial covenants and reduce the interest rate and other fees, and on May 10, 2013 to modify financial covenants. The agreement, as amended, includes a $12.0 million term loan and a $15.0 million line of credit. The $12.0 million term loan has an initial interest rate of 8.0%, which can be reduced to 7.0% based on the achievement of positive EBITDA for the trailing six month period. The $12.0 million term loan has a 36 month maturity, with repayment terms that include interest only payments during the first six months, followed by 30 equal principal payments of $400,000 plus interest, and a final payment of $100,000 due at maturity. The $15.0 million line of credit expires on June 30, 2014 and has a floating interest rate equal to the Wall Street Journal s prime rate, plus 1.25%, with an interest rate floor of 4.5%. Interest on borrowings is due monthly and the principal balance is due at maturity.

Loan and Security Agreement with Partners for Growth

On April 14, 2010, we entered into a loan and security agreement with Partners for Growth III, L.P. (PFG), as amended on August 23, 2011, December 27, 2011, June 30, 2012 and May 10, 2013. The amended agreement provides that PFG will make loans to us up to $5.0 million. The agreement has a maturity date of April 14, 2015. The loans bear interest at a floating per annum rate equal to 2.75% above Silicon Valley Bank s prime rate, and such interest is payable monthly. The principal balance of and any accrued and unpaid interest on any notes are due on the maturity date and may not be prepaid by us at any time in whole or in part.

PLAN OF DISTRIBUTION

We may sell the securities offered through this prospectus (1) to or through underwriters or dealers, (2) directly to purchasers, including our affiliates, (3) through agents, or (4) through a combination of any of these methods. The securities may be distributed at a fixed price or prices, which may be changed, market prices prevailing at the time of sale, prices related to the prevailing market prices, or negotiated prices. The prospectus supplement will include the following information:

- the terms of the offering;
- the names of any underwriters or agents;

the name or names of any managing underwriter or underwriters;

the purchase price of the securities;

the net proceeds from the sale of the securities;

any delayed delivery arrangements;

any underwriting discounts, commissions and other items constituting underwriters compensation;

any initial public offering price;

any discounts or concessions allowed or reallowed or paid to dealers; and

any commissions paid to agents.

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Sale through underwriters or dealers

If underwriters are used in the sale, the underwriters will acquire the securities for their own account, including through underwriting, purchase, security lending or repurchase agreements with us. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions. Underwriters may sell the securities in order to facilitate transactions in any of our other securities (described in this prospectus or otherwise), including other public or private transactions and short sales. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless otherwise indicated in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all the offered securities if they purchase any of them. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers. The prospectus supplement will include the names of the principal underwriters, the respective amount of securities underwritten, the nature of the obligation of the underwriters to take the securities and the nature of any material relationship between an underwriter and us.

If dealers are used in the sale of securities offered through this prospectus, we will sell the securities to them as principals. They may then resell those securities to the public at varying prices determined by the dealers at the time of resale. The prospectus supplement will include the names of the dealers and the terms of the transaction.

Direct sales and sales through agents

We may sell the securities offered through this prospectus directly. In this case, no underwriters or agents would be involved. Such securities may also be sold through agents designated from time to time. The prospectus supplement will name any agent involved in the offer or sale of the offered securities and will describe any commissions payable to the agent by us. Unless otherwise indicated in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.

We may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act with respect to any sale of those securities. The terms of any such sales will be described in the prospectus supplement.

Delayed delivery contracts

If the prospectus supplement indicates, we may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase securities at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The applicable prospectus supplement will describe the commission payable for solicitation of those contracts.

Market making, stabilization and other transactions

Unless the applicable prospectus supplement states otherwise, each series of securities offered by us will be a new issue and will have no established trading market, other than our common stock, which is listed on the Nasdaq Global Market. We may elect to list any series of offered securities on an exchange. Any underwriters that we use in the sale of offered securities may make a market in such securities, but may discontinue such market making at any time without notice. Therefore, we cannot assure you that the securities will have a liquid trading market.

Any underwriter may also engage in stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Rule 104 under the Securities Exchange Act of 1934, as amended. Stabilizing transactions involve bids to purchase the underlying security in the open market for the purpose of pegging, fixing or maintaining the price of the securities. Syndicate covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover syndicate short positions.

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Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the securities to be higher than it would be in the absence of the transactions. The underwriters may, if they commence these transactions, discontinue them at any time.

Derivative transactions and hedging

We, the underwriters or other agents may engage in derivative transactions involving the securities. These derivatives may consist of short sale transactions and other hedging activities. The underwriters or agents may acquire a long or short position in the securities, hold or resell securities acquired and purchase options or futures on the securities and other derivative instruments with returns linked to or related to changes in the price of the securities. In order to facilitate these derivative transactions, we may enter into security lending or repurchase agreements with the underwriters or agents. The underwriters or agents may effect the derivative transactions through sales of the securities to the public, including short sales, or by lending the securities in order to facilitate short sale transactions by others. The underwriters or agents may also use the securities purchased or borrowed from us or others (or, in the case of derivatives, securities received from us in settlement of those derivatives) to directly or indirectly settle sales of the securities or close out any related open borrowings of the securities.

Electronic auctions

We may also make sales through the Internet or through other electronic means. Since we may from time to time elect to offer securities directly to the public, with or without the involvement of agents, underwriters or dealers, utilizing the Internet or other forms of electronic bidding or ordering systems for the pricing and allocation of such securities, you should pay particular attention to the description of that system we will provide in a prospectus supplement.

Such electronic system may allow bidders to directly participate, through electronic access to an auction site, by submitting conditional offers to buy that are subject to acceptance by us, and which may directly affect the price or other terms and conditions at which such securities are sold. These bidding or ordering systems may present to each bidder, on a so-called real-time basis, relevant information to assist in making a bid, such as the clearing spread at which the offering would be sold, based on the bids submitted, and whether a bidder s individual bids would be accepted, prorated or rejected. For example, in the case of a debt security, the clearing spread could be indicated as a number of basis points above an index treasury note. Of course, many pricing methods can and may also be used.

Upon completion of such an electronic auction process, securities will be allocated based on prices bid, terms of bid or other factors. The final offering price at which securities would be sold and the allocation of securities among bidders would be based in whole or in part on the results of the Internet or other electronic bidding process or auction.

General information

Agents, underwriters, and dealers may be entitled, under agreements entered into with us, to indemnification by us against certain liabilities, including liabilities under the Securities Act.

DESCRIPTION OF COMMON STOCK

The following summary of the terms of our common stock is subject to and qualified in its entirety by reference to our Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws, copies of which are on file with the SEC as exhibits to previous SEC filings. Please refer to Where You Can Find More Information below for directions on obtaining these documents.

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As of October 23, 2013, we are authorized to issue 100,000,000 shares of common stock, par value $0.001 per share. As of October 23, 2013, we had 25,644,922 shares of common stock outstanding.

General

The holders of our common stock are entitled to one vote for each share on all matters voted on by stockholders, including elections of directors, and, except as otherwise required by law or provided in any resolution adopted by our board with respect to any series of preferred stock, the holders of such shares possess all voting power. Our certificate of incorporation does not provide for cumulative voting in the election of directors. No cash dividends have been previously paid on our common stock and none are anticipated during fiscal year 2014. We are restricted from paying dividends under our Loan and Security Agreements with Silicon Valley Bank and Partners for Growth. Our common stock is not redeemable.

The holders of our common stock have no preemptive rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Nasdaq Global Market

Our common stock is listed for quotation on the Nasdaq Global Market under the symbol CSII.

Anti-Takeover Effect of Delaware Law and Certain Charter and Bylaw Provisions

Our certificate of incorporation and bylaws contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change of control of our company. These provisions are as follows:

- they provide that special meetings of stockholders may be called only by the Chairman of the Board, the Chief Executive Officer, or by a majority of our board of directors;

- they provide for a classified board of directors, with three separate classes of directors each serving a three-year term;

- they provide that only business brought before an annual meeting by our board of directors or by a stockholder who complies with the procedures set forth in the bylaws may be transacted at an annual meeting of stockholders;

- they provide for advance notice of specified stockholder actions, such as the nomination of directors and stockholder proposals; and they allow us to issue, without stockholder approval, up to 5,000,000 shares of preferred stock that could adversely affect the rights and powers of the holders of our common stock.

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who owns 15% or more of the voting stock of a corporation, or any affiliate or associate of a corporation who, within three years prior, did own 15% or more of the voting stock of that corporation.

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Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation or is or was serving at the corporation s request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of expenses, including attorneys fees but excluding judgments, fines and amounts paid in settlement, actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that a court of competent jurisdiction shall determine that such indemnity is proper.

Section 145(g) of the Delaware General Corporation Law provides that a corporation shall have the power to purchase and maintain insurance on behalf of its officers, directors, employees and agents, against any liability asserted against and incurred by such persons in any such capacity.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a corporation may eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. No such provision shall eliminate or limit the liability of a director for any act or omission occurring prior to the date when such provision becomes effective.

Our Amended and Restated Bylaws provide that we shall indemnify our directors and officers to the fullest extent permitted by the laws of the State of Delaware or any other applicable law. As permitted by our Amended and Restated Bylaws, we have additionally entered into indemnification agreements with each of our non-employee directors that provide for indemnification and expense advancement to the fullest extent permitted by the laws of the State of Delaware.

Our Amended and Restated Bylaws provide that we may purchase and maintain insurance policies on behalf of our directors and officers against specified liabilities for actions taken in their capacities as such, including liabilities under the Securities Act. We have obtained directors and officers liability insurance to cover liabilities our directors and officers may incur in connection with their services to us.

Our Restated Certificate of Incorporation, as amended, provides that the liability of our directors for monetary damages shall be eliminated to the fullest extent under applicable law.

SEC Position on Indemnification for Securities Act Liabilities

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, officers or persons controlling our company, we understand that it is the SEC s opinion that such indemnification is against public policy as expressed in the Securities Act and therefore is unenforceable.

DESCRIPTION OF PREFERRED STOCK

We are authorized to issue up to 5,000,000 shares of preferred stock, par value $0.001 per share. Our board is authorized to provide for the issue of all or any of the shares of the preferred stock in one or more series, and to fix the number of shares and to determine or alter for each such series, such voting powers, full or limited, or no voting powers, and such designation, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as stated in our board s resolutions.

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Our board is also authorized to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. The number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the common stock, without a vote of the holders of the preferred stock, or of any series thereof, unless a vote of any such holders is required pursuant to the terms of any certificate of designation filed with respect to any series of preferred stock.

The authority possessed by our board to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of us through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board may issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock. There are no current agreements or understandings with respect to the issuance of preferred stock.

If we offer a specific class or series of preferred stock under this prospectus, we will describe the terms of the preferred stock in the prospectus supplement for such offering and will file a copy of the certificate establishing the terms of the preferred stock with the SEC. To the extent required and applicable, this description will include:

- the title and stated value;
- the number of shares offered, the liquidation preference per share and the purchase price;
- the dividend rate(s), period(s) and/or payment date(s), or method(s) of calculation for such dividends;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends will accumulate;
- the procedures for any auction and remarketing, if any;
- the provisions for a sinking fund, if any;
- the provisions for redemption, if applicable;
- any listing of the preferred stock on any securities exchange or market;
- whether the preferred stock will be convertible into our common stock, and, if applicable, the conversion price (or how it will be calculated) and conversion period;

- whether the preferred stock will be exchangeable into debt securities, and, if applicable, the exchange price (or how it will be calculated) and exchange period;
- voting rights, if any, of the preferred stock;
- a discussion of any material U.S. federal income tax considerations applicable to the preferred stock;
- the relative ranking and preferences of the preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of our company; and
- any material limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our company.

The preferred stock offered by this prospectus, when issued, will not have, or be subject to, any preemptive or similar rights.

Transfer Agent and Registrar

The transfer agent and registrar for any series or class of preferred stock will be set forth in each applicable prospectus supplement.

DESCRIPTION OF WARRANTS

As of October 23, 2013, we had warrants outstanding to purchase 1,657,154 shares of our common stock. We may issue warrants to purchase shares of our common stock, preferred stock and/or debt securities in one or more series together with other securities or separately, as described in each applicable prospectus supplement. Below is a description of certain general terms and provisions of the warrants that we may offer. Particular terms of the warrants will be described in the applicable warrant agreements and the applicable prospectus supplement for the warrants.

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The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to the warrants:

- the specific designation and aggregate number of, and the price at which we will issue, the warrants;
- the currency or currency units in which the offering price, if any, and the exercise price are payable;
- the designation, amount and terms of the securities purchasable upon exercise of the warrants;
- if applicable, the exercise price for shares of our common stock and the number of shares of common stock to be received upon exercise of the warrants;
- if applicable, the exercise price for shares of our preferred stock, the number of shares of preferred stock to be received upon exercise, and a description of that class or series of our preferred stock;
- if applicable, the exercise price for our debt securities, the amount of our debt securities to be received upon exercise, and a description of that series of debt securities;
- the date on which the right to exercise the warrants will begin and the date on which that right will expire or, if the warrants may not be continuously exercised throughout that period, the specific date or dates on which the warrants may be exercised;
- whether the warrants will be issued in fully registered form or bearer form, in definitive or global form or in any combination of these forms, although, in any case, the form of a warrant included in a unit will correspond to the form of the unit and of any security included in that unit;
- any applicable material U.S. federal income tax consequences;
- the identity of the warrant agent for the warrants and of any other depositaries, execution or paying agents, transfer agents, registrars or other agents;
- the proposed listing, if any, of the warrants or any securities purchasable upon exercise of the warrants on any securities exchange;

- if applicable, the date from and after which the warrants and the common stock, preferred stock and/or debt securities will be separately transferable;
- if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;
- information with respect to book-entry procedures, if any;
- the anti-dilution provisions of the warrants, if any;
- any redemption or call provisions;
- whether the warrants are to be sold separately or with other securities as parts of units; and
- any additional terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

Transfer Agent and Registrar

The transfer agent and registrar for any warrants will be set forth in the applicable prospectus supplement.

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DESCRIPTION OF DEBT SECURITIES

We will issue the debt securities offered by this prospectus and any accompanying prospectus supplement under an indenture to be entered into between us and the trustee identified in the applicable prospectus supplement. The terms of the debt securities will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as in effect on the date of the indenture. We have filed a copy of the form of indenture as an exhibit to the registration statement in which this prospectus is included. The indenture will be subject to and governed by the terms of the Trust Indenture Act of 1939.

We may offer under this prospectus up to an aggregate principal amount of $75,000,000 in debt securities, or if debt securities are issued at a discount, or in a foreign currency, foreign currency units or composite currency, the principal amount as may be sold for an initial public offering price of up to $75,000,000. Unless otherwise specified in the applicable prospectus supplement, the debt securities will represent our direct, unsecured obligations and will rank equally with all of our other unsecured indebtedness.

The following statements relating to the debt securities and the indenture are summaries, qualified in their entirety by reference to the detailed provisions of the debt securities we issue and the indenture we enter into with the trustee.

General

We may issue the debt securities in one or more series with the same or various maturities, at par, at a premium, or at a discount. We will describe the particular terms of each series of debt securities in a prospectus supplement relating to that series, which we will file with the SEC.

The prospectus supplement will set forth, to the extent required and applicable, the following terms of the debt securities in respect of which the prospectus supplement is delivered:

- the title of the series;

- the aggregate principal amount, and, if a series, the total amount authorized and the total amount outstanding;

- the issue price or prices, expressed as a percentage of the aggregate principal amount of the debt securities;

- any limit on the aggregate principal amount;

- the date or dates on which principal is payable;

- the interest rate or rates (which may be fixed or variable) or, if applicable, the method used to determine such rate or rates;

the date or dates from which interest, if any, will be payable and any regular record date for the interest payable;

the place or places where principal and, if applicable, premium and interest, is payable;

the terms and conditions upon which we may, or the holders may require us to, redeem or repurchase the debt securities;

the denominations in which such debt securities may be issuable, if other than denominations of $1,000 or any integral multiple of that number;

whether the debt securities are to be issuable in the form of certificated securities (as described below) or global securities (as described below);

the portion of principal amount that will be payable upon declaration of acceleration of the maturity date if other than the principal amount of the debt securities;

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- the currency of denomination;
- the designation of the currency, currencies or currency units in which payment of principal and, if applicable, premium and interest, will be made;
- if payments of principal and, if applicable, premium or interest, on the debt securities are to be made in one or more currencies or currency units other than the currency of denomination, the manner in which the exchange rate with respect to such payments will be determined;
- if amounts of principal and, if applicable, premium and interest may be determined by reference to an index based on a currency or currencies or by reference to a commodity, commodity index, stock exchange index or financial index, then the manner in which such amounts will be determined;
- the provisions, if any, relating to any collateral provided for such debt securities;
- any addition to or change in the covenants and/or the acceleration provisions described in this prospectus or in the indenture;
- any events of default, if not otherwise described below under Events of Default ;
- the terms and conditions, if any, for conversion into or exchange for shares of our common stock or preferred stock;
- any depositaries, interest rate calculation agents, exchange rate calculation agents or other agents; and
- the terms and conditions, if any, upon which the debt securities shall be subordinated in right of payment to our other indebtedness.

We may issue discount debt securities that provide for an amount less than the stated principal amount to be due and payable upon acceleration of the maturity of such debt securities in accordance with the terms of the indenture. We may also issue debt securities in bearer form, with or without coupons. If we issue discount debt securities or debt securities in bearer form, we will describe material U.S. federal income tax considerations and other material special considerations which apply to these debt securities in the applicable prospectus supplement.

We may issue debt securities denominated in or payable in a foreign currency or currencies or a foreign currency unit or units. If we do, we will describe the restrictions, elections, and general tax considerations relating to the debt securities and the foreign currency or currencies or foreign currency unit or units in the applicable prospectus supplement.

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Debt securities offered under this prospectus and any prospectus supplement will be subordinated in right of payment to certain of our outstanding senior indebtedness, including our credit facilities. In addition, we will seek the consent of the holders of any such senior indebtedness prior to issuing any debt securities under this prospectus to the extent required by the agreements evidencing such senior indebtedness.

Exchange and/or Conversion Rights

We may issue debt securities that can be exchanged for or converted into shares of our common stock or preferred stock. If we do, we will describe the terms of exchange or conversion in the prospectus supplement relating to these debt securities.

Transfer and Exchange

We may issue debt securities that will be represented by either:

- *book-entry securities,* which means that there will be one or more global securities registered in the name of a depositary or a nominee of a depositary; or

- *certificated securities,* which means that they will be represented by a certificate issued in definitive registered form.

We will specify in the prospectus supplement applicable to a particular offering whether the debt securities offered will be book-entry or certificated securities.

Certificated Debt Securities

If you hold certificated debt securities, you may transfer or exchange such debt securities at the trustee s office or at the paying agent s office or agency in accordance with the terms of the indenture. You will not be charged a service charge for any transfer or exchange of certificated debt securities but may be required to pay an amount sufficient to cover any tax or other governmental charge payable in connection with such transfer or exchange.

You may effect the transfer of certificated debt securities and of the right to receive the principal of, premium, and/or interest, if any, on the certificated debt securities only by surrendering the certificate representing the certificated debt securities and having us or the trustee issue a new certificate to the new holder.

Global Securities

If we decide to issue debt securities in the form of one or more global securities, then we will register the global securities in the name of the depositary for the global securities or the nominee of the depositary, and the global securities will be delivered by the trustee to the depositary for credit to the accounts of the holders of beneficial interests in the debt securities.

The prospectus supplement will describe the specific terms of the depositary arrangement for debt securities of a series that are issued in global form. None of us, the trustee, any payment agent or the security registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global debt security or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests.

No Protection in the Event of Change of Control

The indenture does not have any covenants or other provisions providing for a put or increased interest or otherwise that would afford holders of our debt securities additional protection in the event of a recapitalization transaction, a change of control, or a highly leveraged transaction. If we offer any covenants or provisions of this type with respect to any debt securities covered by this prospectus, we will describe them in the applicable prospectus supplement.

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Covenants

Unless otherwise indicated in this prospectus or the applicable prospectus supplement, our debt securities will not have the benefit of any covenants that limit or restrict our business or operations, the pledging of our assets or the incurrence by us of indebtedness. We will describe in the applicable prospectus supplement any material covenants in respect of a series of debt securities.

Consolidation, Merger and Sale of Assets

The form of indenture provides that we will not consolidate with or merge into any other person or convey, transfer, sell or lease our properties and assets substantially as an entirety to any person, unless:

- the person formed by the consolidation or into or with which we are merged or the person to which our properties and assets are conveyed, transferred, sold or leased, is a corporation organized and existing under the laws of the U.S., any state or the District of Columbia or a corporation or comparable legal entity organized under the laws of a foreign jurisdiction and, if we are not the surviving person, the surviving person has expressly assumed all of our obligations, including the payment of the principal of and, premium, if any, and interest on the debt securities and the performance of the other covenants under the indenture; and

- immediately before and immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, has occurred and is continuing under the indenture.

Events of Default

Unless otherwise specified in the applicable prospectus supplement, the following events will be events of default under the indenture with respect to debt securities of any series:

- we fail to pay any principal or premium, if any, when it becomes due;

- we fail to pay any interest within 30 days after it becomes due;

- we fail to observe or perform any other covenant in the debt securities or the indenture for 60 days after written notice specifying the failure from the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series; and

- certain events involving bankruptcy, insolvency or reorganization of us or any of our significant subsidiaries.

The trustee may withhold notice to the holders of the debt securities of any series of any default, except in payment of principal of or premium, if any, or interest on the debt securities of a series, if the trustee considers it to be in the best interest of the holders of the debt securities of that series to do so.

If an event of default (other than an event of default resulting from certain events of bankruptcy, insolvency or reorganization) occurs, and is continuing, then the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of any series may accelerate the maturity of the debt securities. If this happens, the entire principal amount, plus the premium, if any, of all the outstanding debt securities of the affected series plus accrued interest to the date of acceleration will be immediately due and payable. At any time after the acceleration, but before a judgment or decree based on such acceleration is obtained by the trustee, the holders of a majority in aggregate principal amount of outstanding debt securities of such series may rescind and annul such acceleration if:

- all events of default (other than nonpayment of accelerated principal, premium or interest) have been cured or waived;

- all lawful interest on overdue interest and overdue principal has been paid; and

- the rescission would not conflict with any judgment or decree.

In addition, if the acceleration occurs at any time when we have outstanding indebtedness that is senior to the debt securities, the payment of the principal amount of outstanding debt securities may be subordinated in right of payment to the prior payment of any amounts due under the senior indebtedness, in which case the holders of debt securities will be entitled to payment under the terms prescribed in the instruments evidencing the senior indebtedness and the indenture.

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If an event of default resulting from certain events of bankruptcy, insolvency or reorganization occurs, the principal, premium and interest amount with respect to all of the debt securities of any series will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the debt securities of that series.

The holders of a majority in principal amount of the outstanding debt securities of a series will have the right to waive any existing default or compliance with any provision of the indenture or the debt securities of that series and to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, subject to certain limitations specified in the indenture.

No holder of any debt security of a series will have any right to institute any proceeding with respect to the indenture or for any remedy under the indenture, unless:

- the holder gives to the trustee written notice of a continuing event of default;

- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series make a written request and offer reasonable indemnity to the trustee to institute a proceeding as trustee;

- the trustee fails to institute a proceeding within 60 days after such request; and

- the holders of a majority in aggregate principal amount of the outstanding debt securities of the affected series do not give the trustee a direction inconsistent with such request during such 60-day period.

These limitations do not, however, apply to a suit instituted for payment on debt securities of any series on or after the due dates expressed in the debt securities.

We will periodically deliver certificates to the trustee regarding our compliance with our obligations under the indenture.

Modification and Waiver

From time to time, we and the trustee may, without the consent of holders of the debt securities of one or more series, amend the indenture or the debt securities of one or more series, or supplement the indenture, for certain specified purposes, including:

- to provide that the surviving entity following a change of control permitted under the indenture will assume all of our obligations under the indenture and debt securities;

- to provide for certificated debt securities in addition to uncertificated debt securities;

- to comply with any requirements of the SEC under the Trust Indenture Act of 1939;
- to provide for the issuance of and establish the form and terms and conditions of debt securities of any series as permitted by the indenture;
- to cure any ambiguity, defect or inconsistency, or make any other change that does not materially and adversely affect the rights of any holder; and
- to appoint a successor trustee under the indenture with respect to one or more series.

From time to time we and the trustee may, with the consent of holders of at least a majority in principal amount of an outstanding series of debt securities, amend or supplement the indenture or the debt securities series, or waive compliance in a particular instance by us with any provision of the indenture or the debt securities. We may not, however, without the consent of each holder affected by such action, modify or supplement the indenture or the debt securities or waive compliance with any provision of the indenture or the debt securities in order to:

- reduce the amount of debt securities whose holders must consent to an amendment, supplement, or waiver to the indenture or such debt security;
- reduce the rate of or change the time for payment of interest or reduce the amount of or postpone the date for payment of sinking fund or analogous obligations;
- reduce the principal of or change the stated maturity of the debt securities;
- make any debt security payable in money other than that stated in the debt security;

change the amount or time of any payment required or reduce the premium payable upon any redemption, or change the time before which no such redemption may be made;

waive a default in the payment of the principal of, premium, if any, or interest on the debt securities or a redemption payment;

waive a redemption payment with respect to any debt securities or change any provision with respect to redemption of debt securities; or

take any other action otherwise prohibited by the indenture to be taken without the consent of each holder affected by the action.

Defeasance of Debt Securities and Certain Covenants in Certain Circumstances

The indenture permits us, at any time, to elect to discharge our obligations with respect to one or more series of debt securities by following certain procedures described in the indenture. These procedures will allow us either:

to defease and be discharged from any and all of our obligations with respect to any debt securities, except for the following obligations (which discharge is referred to as legal defeasance):

(1) to register the transfer or exchange of such debt securities;

(2) to replace temporary or mutilated, destroyed, lost or stolen debt securities;

(3) to compensate and indemnify the trustee; or

(4) to maintain an office or agency in respect of the debt securities and to hold monies for payment in trust; or

to be released from our obligations with respect to the debt securities under certain covenants contained in the indenture, as well as any additional covenants which may be contained in the applicable supplemental indenture (which release is referred to as covenant defeasance).

In order to exercise either defeasance option, we must deposit with the trustee or other qualifying trustee, in trust for that purpose:

money;

U.S. Government Obligations (as described below) or Foreign Government Obligations (as described below) that through the scheduled payment of principal and interest in accordance with their terms will provide money; or

a combination of money and/or U.S. Government Obligations and/or Foreign Government Obligations sufficient in the written opinion of a nationally-recognized firm of independent accountants to provide money;

that, in each case specified above, provides a sufficient amount to pay the principal of, premium, if any, and interest, if any, on the debt securities of the series, on the scheduled due dates or on a selected date of redemption in accordance with the terms of the indenture.

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In addition, defeasance may be effected only if, among other things:

- in the case of either legal or covenant defeasance, we deliver to the trustee an opinion of counsel, as specified in the indenture, stating that as a result of the defeasance neither the trust nor the trustee will be required to register as an investment company under the Investment Company Act of 1940;

- in the case of legal defeasance, we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the Internal Revenue Service a ruling to the effect that, or there has been a change in any applicable federal income tax law with the effect that (and the opinion shall confirm that), the holders of outstanding debt securities will not recognize income, gain or loss for U.S. federal income tax purposes solely as a result of such legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner, including as a result of prepayment, and at the same times as would have been the case if legal defeasance had not occurred;

- in the case of covenant defeasance, we deliver to the trustee an opinion of counsel to the effect that the holders of the outstanding debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if covenant defeasance had not occurred; and

- certain other conditions described in the indenture are satisfied.

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If we fail to comply with our remaining obligations under the indenture and applicable supplemental indenture after a covenant defeasance of the indenture and applicable supplemental indenture, and the debt securities are declared due and payable because of the occurrence of any undefeased event of default, the amount of money and/or U.S. Government Obligations and/or Foreign Government Obligations on deposit with the trustee could be insufficient to pay amounts due under the debt securities of the affected series at the time of acceleration. We will, however, remain liable in respect of these payments.

The term U.S. Government Obligations as used in the above discussion means securities that are direct obligations of or non-callable obligations guaranteed by the United States of America for the payment of which obligation or guarantee the full faith and credit of the United States of America is pledged.

The term Foreign Government Obligations as used in the above discussion means, with respect to debt securities of any series that are denominated in a currency other than U.S. dollars, (1) direct obligations of the government that issued or caused to be issued such currency for the payment of which obligations its full faith and credit is pledged or (2) obligations of a person controlled or supervised by or acting as an agent or instrumentality of such government the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by that government, which in either case under clauses (1) or (2), are not callable or redeemable at the option of the issuer.

Regarding the Trustee

We will identify the trustee with respect to any series of debt securities in the prospectus supplement relating to the applicable debt securities. You should note that if the trustee becomes a creditor of ours, the indenture and the Trust Indenture Act of 1939 limit the rights of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim, as security or otherwise. The trustee and its affiliates may engage in, and will be permitted to continue to engage in, other transactions with us and our affiliates. If, however, the trustee acquires any conflicting interest within the meaning of the Trust Indenture Act of 1939, it must eliminate such conflict or resign.

The holders of a majority in principal amount of the then outstanding debt securities of any series may direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee. If an event of default occurs and is continuing, the trustee, in the exercise of its rights and powers, must use the degree of care and skill of a prudent person in the conduct of his or her own affairs. Subject to that provision, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any of the holders of the debt securities, unless they have offered to the trustee reasonable indemnity or security.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 with the SEC for the securities we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information.

We are required to file annual and quarterly reports, special reports, proxy statements, and other information with the SEC. We make these documents publicly available, free of charge, on our website at www.csi360.com as soon as reasonably practicable after filing such documents with the SEC. You can read our SEC filings, including the registration statement, on the SEC s website at http://www.sec.gov. You also may read and copy any document we file with the SEC at its public reference facility at:

Public Reference Room

100 F Street N.E.

Washington, DC 20549.

Please call the SEC at 1-800-732-0330 for further information on the operation of the public reference facilities.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will automatically update and supersede information in this prospectus. We incorporate by reference into this prospectus the documents listed below and any future filings made by us with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until we close this offering, including all filings made after the date of the initial registration statement and prior to the effectiveness of the registration statement. We hereby incorporate by reference the following documents:

- our Annual Report on Form 10-K for the year ended June 30, 2013;

- our Current Reports on Form 8-K filed on August 7, 2013, September 16, 2013 and October 22, 2013 (excluding any information furnished in such reports under Item 2.02, Item 7.01 or Item 9.01);

- the description of our common stock contained in our registration statement on Form 8-A filed June 26, 2006, under the Securities Act, including any amendment or report filed for the purpose of updating such description; and

- our definitive Proxy Statement on Schedule 14A filed on October 1, 2013.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Cardiovascular Systems, Inc.

651 Campus Drive

St. Paul, Minnesota 55112-3495

Attention: Investor Relations

Phone: (651) 259-1600

Copies of these filings are also available, without charge, through the Investors section of our website (www.csi360.com) as soon as reasonably practicable after they are filed electronically with the SEC. The information contained on our website is not a part of this prospectus.

LEGAL MATTERS

The validity of the issuance of the securities offered hereby will be passed upon for us by Fredrikson & Byron, P.A., Minneapolis, Minnesota. The validity of any securities will be passed upon for any underwriters or agents by counsel that we will name in the applicable prospectus supplement.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended June 30, 2013 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

CARDIOVASCULAR SYSTEMS, INC.

$75,000,000

Common Stock

Preferred Stock

Warrants

Debt Securities

Units

, 2013

We have not authorized any dealer, salesperson or other person to give any information or represent anything not contained in this prospectus. You must not rely on any unauthorized information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus does not offer to sell any shares in any jurisdiction where it is unlawful. Neither the delivery of this prospectus, nor any sale made hereunder, shall create any implication that the information in this prospectus is correct after the date hereof.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution*****.**
The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered. All amounts shown are estimates, except the SEC registration fee. The registrant has agreed to pay these costs and expenses.

Securities and Exchange Commission registration fee	$ 9,660
FINRA corporate filing fees	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer Agent and Registrar fees	*
Miscellaneous	*
Total	$ *

* Estimated expenses not presently known.

Item 15. ***Indemnification of Directors and Officers*****.**
Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation or is or was serving at the corporation s request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of expenses, including attorneys fees but excluding judgments, fines and amounts paid in settlement, actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that a court of competent jurisdiction shall determine that such indemnity is proper.

Section 145(g) of the Delaware General Corporation Law provides that a corporation shall have the power to purchase and maintain insurance on behalf of its officers, directors, employees and agents, against any liability asserted against and incurred by such persons in any such capacity.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a corporation may eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. No such provision shall eliminate or limit the liability of a director for any act or omission occurring prior to the date when such provision becomes effective.

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Our Amended and Restated Bylaws provide that we shall indemnify our directors and officers to the fullest extent permitted by the laws of the State of Delaware or any other applicable law. As permitted by our Amended and Restated Bylaws, we have additionally entered into indemnification agreements with each of our non-employee directors that provide for indemnification and expense advancement to the fullest extent permitted by the laws of the State of Delaware.

Our Amended and Restated Bylaws provide that we may purchase and maintain insurance policies on behalf of our directors and officers against specified liabilities for actions taken in their capacities as such, including liabilities under the Securities Act. We have obtained directors and officers liability insurance to cover liabilities our directors and officers may incur in connection with their services to us.

Our Restated Certificate of Incorporation, as amended, provides that the liability of our directors for monetary damages shall be eliminated to the fullest extent under applicable law.

Item 16. ***Exhibits*.**
See Exhibit Index beginning on page II-6 of this registration statement.

Item 17. ***Undertakings*.**
(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

Provided, *however*, that the undertakings set forth in paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statements or is contained in a form of prospectus filed pursuant to Rule 424(b) that is a part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser: (i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424; (ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant; (iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and (iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) The undersigned registrant hereby undertakes that: (i) for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of the registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective; and (ii) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(d) If and when applicable, the undersigned registrant, hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Act.

(e) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any

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action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of St. Paul, State of Minnesota, on the 25th day of October, 2013.

Dated: October 25, 2013

CARDIOVASCULAR SYSTEMS, INC.

By: /s/ David L. Martin
David L. Martin
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on October 25, 2013:

Signature	Title
/s/ David L. Martin David L. Martin	President, Chief Executive Officer and Director (principal executive officer)
/s/ Laurence L. Betterley Laurence L. Betterley	Chief Financial Officer (principal financial and accounting officer)
* Edward Brown	Director
* Brent G. Blackey	Director
* John H. Friedman	Director
* Augustine Lawlor	Director
* Glen D. Nelson	Director
* Leslie L. Trigg	Director

*	Director
Scott Bartos	
*By: /s/ David L. Martin David L. Martin	As attorney-in-fact

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EXHIBIT INDEX

The following is a list of exhibits filed as part of this registration statement.

Exhibit	Description
1.1	Form of Underwriting Agreement*
4.1	Restated Certificate of Incorporation, as amended (1)
4.2	Amended and Restated Bylaws (2)
4.3	Specimen Common Stock Certificate (2)
4.4	Form of Common Stock Warrant Agreement and Warrant Certificate*
4.5	Form of Preferred Stock Warrant Agreement and Warrant Certificate*
4.6	Form of Debt Securities Warrant Agreement and Warrant Certificate*
4.7	Form of Indenture(4)
4.8	Form of Cardiovascular Systems, Inc. common stock warrant issued to former preferred stockholders (2)
4.9	Registration Rights Agreement by and among Cardiovascular Systems, Inc. and certain of its stockholders, dated as of March 16, 2009 (3)
4.10	Termination of Fourth Amended and Restated Stockholders Agreement by and among Cardiovascular Systems, Inc. and certain of its stockholders, dated as of March 16, 2009 (3)
5.1	Opinion of Fredrikson & Byron, P.A. relating to the Securities (4)
23.1	Consent of Fredrikson & Byron, P.A. (included in Exhibit 5.1) (4)
23.2	Consent of PricewaterhouseCoopers LLP (5)
24.1	Power of attorney (4)
25.1	Statement of Eligibility of Trustee Under Debt Indenture (to be filed separately pursuant to Section 305(b)(2) of the Trust Indenture Act of 1939)

(1) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
(2) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from the Company s Current Report on Form 8-K filed on March 3, 2009.
(3) Previously filed with the SEC as an Exhibit to and incorporated herein by reference from the Company s Current Report on Form 8-K filed on March 18, 2009.
(4) Previously filed.
(5) Filed herewith.
* To be filed if necessary, subsequent to the effectiveness of this registration statement by an amendment to this registration statement or incorporated by reference pursuant to a Current Report on Form 8-K in connection with the offering of securities.

tware to meet the reporting requirements of this standard. We expect our financial statement disclosures will be expanded to present additional details of our leasing arrangements. At this time, we are unable to reasonably estimate the expected increase in assets and liabilities on our consolidated balance sheets or the impacts to our consolidated financial statements upon adoption.

In January 2016, the FASB issued guidance that requires most equity investments be measured at fair value, with subsequent other changes in fair value recognized in net income. The guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements on the classification and measurement of financial instruments. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. It should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, unless equity securities do not have readily determinable fair values, in which case the amendments should be applied prospectively. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue. The guidance provides for a single five-step model to be applied to all revenue contracts with customers. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for fiscal years beginning after December 15, 2016, our fiscal 2018. We plan to adopt this guidance using the modified retrospective transition method beginning in the first quarter of fiscal 2019. We continue to evaluate the impact of the adoption of this guidance, but currently, we do not expect the new guidance to materially impact our consolidated financial statements other than additional disclosure requirements.

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Changes in Accounting Principles

In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows and impact on earnings per share. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. We adopted this guidance in the first quarter of fiscal 2018. The guidance requires all income tax effects of share-based payment awards to be recognized in the consolidated statements of income when the awards vest or are settled, which is a change from the current guidance that requires such activity to be recorded in capital in excess of par value within stockholders' equity. We adopted this guidance prospectively which may create volatility in our effective tax rate when adopted depending largely on future events and other factors which may include our stock price, timing of stock option exercises, and the value realized upon vesting or exercise of shares compared to the grant date fair value of those shares. For the three months ended December 30, 2017, the recorded tax benefit was not material. In addition, when calculating potential common shares used to determine diluted earnings per share this guidance requires that assumed proceeds under the treasury stock method be modified to exclude the amount of excess tax benefits that would have been recognized in additional paid-in capital. These changes were applied on a prospective basis which did not have a material impact to diluted earnings per share for the three months ended December 30, 2017. Under the new guidance, companies can also make an accounting policy election to either estimate forfeitures each period or to account for forfeitures as they occur. We changed our accounting policy to account for forfeitures as they occur using the modified retrospective transition method which did not have a material impact on our consolidated financial statements. The guidance changes the presentation of excess tax benefits from a financing activity to an operating activity in the consolidated statements of cash flows. We applied this change prospectively, and thus, prior periods have not been adjusted. This guidance also requires the presentation related to cash paid to a taxing authority when shares are withheld to satisfy the statutory income tax withholding obligation to a financing activity in the consolidated statements of cash flows. The adoption of this standard did not have a material impact on our consolidated statements of cash flows.

In July 2015, the FASB issued guidance which requires management to evaluate inventory at the lower of cost and net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. The prospective transition method was applied. We adopted this guidance in the first quarter of fiscal 2018 and it did not have a material impact on our consolidated financial statements.

NOTE 2: ACQUISITIONS AND DISPOSITIONS

Acquisitions

On November 10, 2017, we acquired a value-added protein business for $226 million, net of cash acquired, as part of our strategic expansion initiative. Its results, subsequent to the acquisition closing, are included in our Prepared Foods and Chicken segments. The preliminary purchase price allocation included $21 million of net working capital, including $10 million of cash acquired, $13 million of Property, Plant and Equipment, $90 million of Intangible Assets and $112 million of Goodwill. All of the goodwill acquired is deductible for tax purposes. Certain estimated values for the acquisition, including goodwill, intangible assets, and property, plant and equipment, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed.

On June 7, 2017, we acquired all of the outstanding common stock of AdvancePierre Foods Holdings, Inc. ("AdvancePierre") as part of our strategy to sustainably feed the world with the fastest growing portfolio of protein brands. The purchase price was equal to $40.25 per share for AdvancePierre's outstanding common stock, or approximately $3.2 billion. We funded the acquisition with existing cash on hand, net proceeds from the issuance of new senior notes and a new term loan facility, as well as borrowings under our commercial paper program. AdvancePierre's results from operations subsequent to the acquisition closing are included in the Prepared Foods and Chicken segments.

The following table summarizes the purchase price allocation and fair values of the assets acquired and liabilities assumed at the acquisition date of AdvancePierre. Certain estimated values for the acquisition, including goodwill, intangible assets, property, plant and equipment, and deferred income taxes, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed. The purchase price was allocated based on information available at acquisition date. During the first quarter of fiscal 2018, we recorded measurement period adjustments which decreased goodwill by $2 million, primarily related to updated information related to income taxes.

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	in millions
Cash and cash equivalents	$ 126
Accounts receivable	80
Inventories	272
Other current assets	5
Property, Plant and Equipment	302
Goodwill	2,980
Intangible Assets	1,515
Current debt	(1,148)
Accounts payable	(114)
Other current liabilities	(97)
Tax receivable agreement ("TRA") due to former shareholders	(223)
Long-Term Debt	(33)
Deferred Income Taxes	(455)
Other Liabilities	(3)
Net assets acquired	$ 3,207

The fair value of identifiable intangible assets is as follows:

			in millions
Intangible Asset Category	Type	Life in Years	Fair Value
Brands & Trademarks	Amortizable	Weighted Average of 15 years	$ 390
Customer Relationships	Amortizable	Weighted Average of 15 years	1,125
Total identifiable intangible assets			$ 1,515

As a result of the acquisition, we recognized a total of $2,980 million of goodwill. The purchase price was assigned to assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition, and any excess was allocated to goodwill, as shown in the table above. Goodwill represents the value we expect to achieve through the implementation of operational synergies and growth opportunities. We completed the allocation of goodwill to our segments in the first quarter of fiscal 2018 using the with-and-without approach of the estimated operating results and synergy impact to fair value of our reporting units. This resulted in $2,412 million and $568 million of goodwill allocated to our Prepared Foods and Chicken segments, respectively. Of the goodwill acquired, $163 million related to previous AdvancePierre acquisitions is expected to be deductible for tax purposes.

We used various valuation techniques to determine fair value, with the primary techniques being discounted cash flow analysis, relief-from-royalty, and multi-period excess earnings valuation approaches, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.

The acquisition of AdvancePierre was accounted for using the acquisition method of accounting, and consequently, the results of operations for AdvancePierre are reported in our consolidated financial statements from the date of acquisition.

The following unaudited pro forma information presents the combined results of operations as if the acquisition of AdvancePierre had occurred at the beginning of fiscal 2016. AdvancePierre's pre-acquisition results have been added to our historical results. The pro forma results contained in the table below include adjustments for amortization of acquired intangibles, depreciation expense, interest expense related to the financing and related income taxes. Any potential cost savings or other operational efficiencies that could result from the acquisition are not included in these pro forma results.

These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations as they would have been had the acquisitions occurred on the assumed dates, nor is it necessarily an indication of future operating results.

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in millions (unaudited)	Three Months Ended December 31, 2016
Pro forma sales	$ 9,587
Pro forma net income attributable to Tyson	599
Pro forma net income per diluted share attributable to Tyson	$ 1.61

Dispositions

On April 24, 2017, we announced our intent to sell three non-protein businesses as part of our strategic focus on protein brands. These businesses, which are all part of our Prepared Foods segment, included Sara Lee® Frozen Bakery, Kettle and Van's® and produce items such as frozen desserts, waffles, snack bars, and soups, sauces and sides. The sale is also expected to include the Chef Pierre®, Bistro Collection®, Kettle Collection™, and Van's® brands, a license to use the Sara Lee® brand in various channels, as well as our Tarboro, North Carolina, Fort Worth, Texas, and Traverse City, Michigan, prepared foods facilities. The remaining assets and liabilities related to these businesses are classified as assets and liabilities held for sale in our Consolidated Condensed Balance Sheet at December 30, 2017 and September 30, 2017.

We completed the sale of our Kettle business on December 30, 2017, and received net proceeds of $125 million including a working capital adjustment. As a result of the sale, we recorded a pretax gain of $22 million, which is reflected in Cost of Sales in our Consolidated Condensed Statement of Income for the three months ended December 30, 2017. We utilized the net proceeds to pay down term loan debt.

We anticipate we will close on the sale of the Sara Lee® Frozen Bakery and Van's® businesses in the back half of fiscal 2018. In the first quarter of 2018, we recorded a pretax impairment charge totaling $26 million, due to revised estimates of the businesses fair value based on current expected net sales proceeds. The impairment charge was recorded in Cost of Sales in our Consolidated Condensed Statement of Income for the three months ended December 30, 2017, and primarily consisted of goodwill previously classified within assets held for sale.

In the first quarter of fiscal 2018, we made the decision to sell an additional non-protein business as part of our strategic focus on protein brands. This business is included in our Prepared Foods segment and had a net carrying value of approximately $50 million at December 30, 2017, which also included allocated goodwill. The net carrying value will change in future periods due to such items as normal business operations, timing of closing of the sale, as well as final negotiated deal terms. We anticipate we will be able to identify a buyer and close the transaction within the next twelve months and expect to record a pretax gain as a result of the sale of this business. We have reclassified the assets and liabilities related to this business to assets and liabilities held for sale in our Consolidated Condensed Balance Sheet as of December 30, 2017.

The Company concluded the businesses were not significant disposal groups and did not represent a strategic shift, and therefore were not classified as discontinued operations for any of the periods presented.

The following table summarizes the net assets and liabilities held for sale:

	in millions	
	December 30, 2017	September 30, 2017
Assets held for sale:		
Accounts receivable, net	$ 2	$ 2
Inventories	66	109
Net Property, Plant and Equipment	182	192
Other current assets	1	1
Goodwill	268	312
Intangible Assets, net	191	191
Total assets held for sale	$ 710	$ 807
Liabilities held for sale:		

Accounts payable	$ 1	$ 1
Other current liabilities	5	3
Total liabilities held for sale	$ 6	$ 4

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NOTE 3: INVENTORIES

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

At December 30, 2017, 64% of the cost of inventories was determined by the first-in, first-out ("FIFO") method as compared to 63% at September 30, 2017. The remaining cost of inventories for both periods is determined by the weighted-average method.

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

	December 30, 2017	September 30, 2017
Processed products	$ 1,904	$ 1,947
Livestock	880	874
Supplies and other	429	418
Total inventory	$ 3,213	$ 3,239

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

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

	December 30, 2017	September 30, 2017
Land	$ 138	$ 138
Buildings and leasehold improvements	3,961	3,878
Machinery and equipment	7,170	7,111
Land improvements and other	336	323
Buildings and equipment under construction	567	492
	12,172	11,942
Less accumulated depreciation	6,499	6,374
Net property, plant and equipment	$ 5,673	$ 5,568

NOTE 5: RESTRUCTURING AND RELATED CHARGES

In the fourth quarter of fiscal 2017, our Board of Directors approved a multi-year restructuring program (the “Financial Fitness Program”), which is expected to contribute to the Company’s overall strategy of financial fitness through increased operational effectiveness and overhead reduction. The Company currently anticipates the Financial Fitness Program will result in cumulative pretax charges, once implemented, of approximately $218 million which consist primarily of severance and employee related costs, asset impairments, accelerated depreciation, incremental costs to implement new technology, and contract termination costs. As part of this program, we anticipate eliminating approximately 600 positions across several areas and job levels with most of the eliminated positions originating from the corporate offices in Springdale, Arkansas; Chicago, Illinois; and Cincinnati, Ohio. In the first quarter of fiscal 2018, the Company recognized restructuring and related charges of $19 million associated with the Financial Fitness Program.

The following table reflects the pretax impact of restructuring and related charges in our Consolidated Condensed Statements of Income:

in millions

	Three Months Ended December 30, 2017
Cost of Sales	$ —
Selling, General and Administrative expenses	19
Total restructuring and related charges, pretax	$ 19

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The following table reflects the pretax impact of restructuring and related charges incurred in the first quarter of fiscal 2018, the program charges to date and the total estimated program charges, by our reportable segments:

in millions

	Three Months Ended December 30, 2017	Financial Fitness Program charges to date December 30, 2017	Total estimated Financial Fitness Program charges
Beef	$ 1	$ 9	$ 13
Pork	1	4	6
Chicken	9	65	89
Prepared Foods	8	90	109
Other	—	1	1
Total restructuring and related charges, pretax	$ 19	$ 169	$ 218

For the first quarter of fiscal 2018, the restructuring and related charges consisted of $3 million severance and employee related costs and $16 million technology related costs.

The following table reflects our liability related to restructuring charges which were recognized in other current liabilities in our Consolidated Condensed Balance Sheets as of December 30, 2017:

in millions

	Liability as of September 30, 2017	Restructuring charges	Payments	Other	Liability as of December 30, 2017
Severance and employee related costs	$ 47	$ 3	$ 12	$ —	$ 38
Contract termination	22	—	1	—	21
Total	$ 69	$ 3	$ 13	$ —	$ 59

NOTE 6: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	December 30, 2017	September 30, 2017
Accrued salaries, wages and benefits	$ 468	673
Other	945	751
Total other current liabilities	$ 1,413	$ 1,424

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NOTE 7: DEBT

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

	December 30, 2017	September 30, 2017
Revolving credit facility	$ 5	$ —
Commercial paper	682	778
Senior notes:		
7.00% Notes due May 2018	120	120
Notes due May 2019 (2019 Floating-Rate Notes) (1.93% at 12/30/2017)	300	300
2.65% Notes due August 2019	1,000	1,000
Notes due June 2020 (2020 Floating-Rate Notes) (2.04% at 12/30/2017)	350	350
Notes due August 2020 (August 2020 Floating-Rate Notes) (1.89% at 12/30/2017)	400	400
4.10% Notes due September 2020	282	282
2.25% Notes due August 2021 (2021 Notes)	500	500
4.50% Senior notes due June 2022	1,000	1,000
3.95% Notes due August 2024	1,250	1,250
3.55% Notes due June 2027 (2027 Notes)	1,350	1,350
7.00% Notes due January 2028	18	18
6.13% Notes due November 2032	162	162
4.88% Notes due August 2034	500	500
5.15% Notes due August 2044	500	500
4.55% Notes due June 2047 (2047 Notes)	750	750
Discount on senior notes	(14)	(15)
Term loans:		
Tranche B due August 2019	—	427
Tranche B due August 2020 (2.43% at 12/30/2017)	500	500
Other	78	81
Unamortized debt issuance costs	(47)	(50)
Total debt	9,686	10,203
Less current debt	811	906
Total long-term debt	$ 8,875	$ 9,297

Revolving Credit Facility

We have a $1.5 billion revolving credit facility that supports short-term funding needs and letters of credit and will mature and the commitments thereunder will terminate in May 2022. Amounts available for borrowing under this facility totaled $1,488 million at December 30, 2017, net of outstanding letters of credit and outstanding borrowings. At December 30, 2017, we had outstanding letters of credit issued under this facility totaling $7 million, none of which were drawn upon. We had an additional $100 million of bilateral letters of credit issued separately from the revolving credit facility, none of which were drawn upon. Our letters of credit are issued primarily in support of leasing and workers' compensation insurance programs and other legal obligations.

If in the future any of our subsidiaries shall guarantee any of our material indebtedness, such subsidiary shall be required to guarantee the indebtedness, obligations and liabilities under this facility.

Commercial Paper Program

We have a commercial paper program under which we may issue unsecured short-term promissory notes ("commercial paper") up to an aggregate maximum principal amount of $800 million as of December 30, 2017. As of December 30, 2017, we had $682 million of commercial paper outstanding at a weighted average interest rate of 1.85% with maturities of less than 45 days.

Term Loan Tranche B due August 2019

During the first quarter of fiscal 2018, we extinguished the $427 million outstanding balance of the Term Loan Tranche B due in August 2019 using cash on hand and proceeds received from the sale of a non-protein business.

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Debt Covenants

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

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

We were in compliance with all debt covenants at December 30, 2017.

NOTE 8: EQUITY

Share Repurchases

As of December 30, 2017, 26.3 million shares remained available for repurchase under our share repurchase program. The share repurchase program has no fixed or scheduled termination date and the timing and extent to which we repurchase shares will depend upon, among other things, our working capital needs, markets, industry conditions, liquidity targets, limitations under our debt obligations and regulatory requirements. In addition to the share repurchase program, we purchase shares on the open market to fund certain obligations under our equity compensation plans.

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

	Three Months Ended			
	December 30, 2017		December 31, 2016	
	Shares	Dollars	Shares	Dollars
Shares repurchased:				
Under share repurchase program	1.5	$ 120	8.6	$ 550
To fund certain obligations under equity compensation plans	0.6	44	0.4	26
Total share repurchases	2.1	$ 164	9.0	$ 576

NOTE 9: INCOME TAXES

On December 22, 2017, President Trump signed into law the "Tax Cuts and Jobs Act" (the "Tax Act"). The Tax Act includes significant changes to the U.S. tax code that will affect our fiscal year ending September 29, 2018, and future periods, including, but not limited to, (1) reducing the corporate federal income tax rate from 35% to 21%, (2) bonus depreciation that will allow for full expensing of qualified property in the year placed in service, and (3) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries. Section 15 of the Internal Revenue Code (the "Code") stipulates that our fiscal year ending September 29, 2018, will have a blended corporate tax rate of 24.5%, which is based on the applicable tax rates before and after the Tax Act and the number of days in the year. Additionally, the Tax Act includes the repeal of the domestic production activity deduction, a new provision designed to tax global intangible low-taxed income ("GILTI"), a new provision which allows a deduction for foreign-derived intangible income ("FDII"), and a new provision which institutes a base erosion and anti-abuse tax ("BEAT"), beginning with our fiscal year 2019. We are still evaluating these new international provisions; however, we do not expect them to have a material impact to our financial statements.

Changes in the Code from the Tax Act had a material impact on our financial statements in the first quarter of 2018. Under generally accepted accounting principles ("U.S. GAAP") specifically ASC Topic 740, Income Taxes, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted, or December 22, 2017, for the Tax Act. ASC 740 also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company’s deferred taxes were re-measured based upon the new tax rates. The change in deferred taxes is recorded as an adjustment to our deferred tax provision.

The staff of the U.S. Securities and Exchange Commission has recognized the complexity of reflecting the impacts of the Tax Act and issued guidance in Staff Accounting Bulletin 118 ("SAB 118"), which clarifies accounting for income taxes under ASC 740 if information is not yet available or complete and provides for up to a one year period in which to complete the required analyses and accounting (the "measurement period"). SAB 118 describes three scenarios (or "buckets") associated with a company’s status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply ASC 740, based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted.

Our accounting for the Tax Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:
Corporate Tax Rate Reduction: The Tax Act reduced the corporate tax rate from 35% to 21%, effective January 1, 2018. This results in a blended corporate tax rate of 24.5% in fiscal year 2018 and 21% thereafter. We analyzed our domestic deferred tax balances to estimate which of those balances are expected to reverse in fiscal 2018 or thereafter, and we re-measured the deferred taxes at 24.5% or 21% accordingly. In the three months ended December 30, 2017, we recorded a discrete net deferred income tax benefit of $994 million with a corresponding provisional reduction to our net deferred income tax liability. This estimate may change as we receive additional information about the timing of deferred income tax reversals.
Transition Tax: The Tax Act requires a one-time Deemed Repatriation Transition Tax on previously untaxed net accumulated and current earnings and profits of our foreign subsidiaries. Based on our analysis of our foreign earnings and profits, net of deficits and foreign tax credits, we do not expect any transition tax to be due for the Company.
Our accounting for the following element of the Tax Act is incomplete, and we were not yet able to make reasonable estimates of the effects. Therefore, no provisional adjustments were recorded.
GILTI: The Tax Act creates a new requirement in tax years beginning after December 31, 2017, that certain income (i.e., GILTI) earned by controlled foreign corporations ("CFCs") must be included currently in the gross income of the CFCs' U.S. shareholder. Because of the complexity of the new GILTI tax rules, we continue to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Since future U.S. inclusions in taxable income related to GILTI depends on not only our current ownership structure and estimated future results of global operations but also our intent and ability to modify such structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI.
The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimates, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the company has utilized to calculate the impacts.
The effective tax rate was (93.8)% and 34.9% for the first quarter of fiscal 2018 and 2017, respectively. The remeasurement of deferred income taxes at newly enacted tax rates resulted in a $994 million income tax benefit, or a (118.1)% impact on the effective tax rate in the first quarter, and the newly enacted tax legislation resulted in a 24.5% statutory federal income tax rate for fiscal 2018. The effective tax rate for the first quarter 2018 also includes (2.3)% impact related to excess tax benefits associated with share-based payments to employees. Additionally, the effective tax rates for the first quarter of fiscal 2018 and fiscal 2017 were impacted by such items as the domestic production deduction and state income taxes.
Unrecognized tax benefits were $305 million and $316 million at December 30, 2017, and September 30, 2017, respectively.
We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease by as much as $12 million primarily due to expiration of statutes of limitations in various jurisdictions.
As of September 30, 2017, we had accumulated undistributed earnings of foreign subsidiaries aggregating approximately $182 million. The Tax Act generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries after December 31, 2017. As a result, our intention is that excess cash held by our foreign subsidiaries that is not subject to regulatory restrictions is expected to be repatriated net of applicable withholding taxes which are expected to be immaterial. The remainder of accumulated undistributed earnings are expected to be indefinitely

reinvested outside of the United States.
NOTE 10: OTHER INCOME AND CHARGES
During the first quarter of fiscal 2018, we recorded $3 million of equity earnings in joint ventures and $3 million in net foreign currency exchange losses, which were recorded in the Consolidated Condensed Statements of Income in Other, net.
During the first quarter of fiscal 2017, we recorded $16 million of legal cost related to a 1995 plant closure of an apparel manufacturing facility operated by a former subsidiary of The Hillshire Brands Company, which we acquired in fiscal 2014, $3 million of equity earnings in joint ventures and $1 million in net foreign currency exchange losses, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

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NOTE 11: EARNINGS PER SHARE

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

	Three Months Ended	
	December 30, 2017	December 31, 2016
Numerator:		
Net income	$1,632	$ 594
Less: Net income attributable to noncontrolling interests	1	1
Net income attributable to Tyson	1,631	593
Less dividends declared:		
Class A	111	86
Class B	24	19
Undistributed earnings	$1,496	$ 488
Class A undistributed earnings	$1,233	$ 403
Class B undistributed earnings	263	85
Total undistributed earnings	$1,496	$ 488
Denominator:		
Denominator for basic earnings per share:		
Class A weighted average shares	296	297
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70
Effect of dilutive securities:		
Stock options, restricted stock and performance units	5	6
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	371	373
Net income per share attributable to Tyson:		
Class A basic	$4.54	$ 1.64
Class B basic	$4.09	$ 1.49
Diluted	$4.40	$ 1.59

Approximately 1 million of our stock-based compensation shares were antidilutive for the three months ended December 30, 2017 and approximately 2 million for the three months ended December 31, 2016. These shares were not included in the diluted earnings per share calculation.

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

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

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NOTE 12: DERIVATIVE FINANCIAL INSTRUMENTS

Our business operations give rise to certain market risk exposures mostly due to changes in commodity prices, foreign currency exchange rates and interest rates. We manage a portion of these risks through the use of derivative financial instruments to reduce our exposure to commodity price risk, foreign currency risk and interest rate risk. Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored, using value-at-risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at December 30, 2017.

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

	Metric	December 30, 2017	September 30, 2017
Commodity:			
Corn	Bushels	55	55
Soy meal	Tons	452,600	475,200
Live cattle	Pounds	252	211
Lean hogs	Pounds	212	240
Foreign currency	United States dollar	$ 53	$ 58

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

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

Cash Flow Hedges

Derivative instruments are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three months ended December 30, 2017, and December 31, 2016. As of December 30, 2017, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $3 million. During the three months ended December 30, 2017, and December 31, 2016, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges.

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

	Gain (Loss) Recognized in OCI On Derivatives	Consolidated Condensed Statements of Income Classification	Gain (Loss) Reclassified from OCI to Earnings

	Three Months Ended December 30, 2017	Three Months Ended December 31, 2016		Three Months Ended December 30, 2017	Three Months Ended December 31, 2016
Cash flow hedge – derivatives designated as hedging instruments:					
Commodity contracts	$ (2)	$ 1	Cost of sales	$ (1)	$ (4)
Foreign exchange contracts	—	—	Other income/expense	—	—
Total	$ (2)	$ 1		$ (1)	$ (4)

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Fair Value Hedges

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

	Consolidated Condensed Statements of Income Classification	Three Months Ended December 30, 2017	December 31, 2016
Gain (Loss) on forwards	Cost of sales	$ (7)	$ 28
Gain (Loss) on purchase contract	Cost of sales	7	(28)

Ineffectiveness related to our fair value hedges was not significant for the three months ended December 30, 2017, and December 31, 2016.

Undesignated Positions

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

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

	Consolidated Condensed Statements of Income Classification	Gain (Loss) Recognized in Earnings Three Months Ended December 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:			
Commodity contracts	Sales	$ 9	$ 51
Commodity contracts	Cost of sales	(22)	(1)
Foreign exchange contracts	Other income/expense	—	—
Total		$ (13)	$ 50

The fair value of all outstanding derivative instruments in the Consolidated Condensed Balance Sheets are included in Note 13: Fair Value Measurements.

NOTE 13: FAIR VALUE MEASUREMENTS

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

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

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

December 30, 2017	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$ —	$ 6	$ —	$ 2	$ 8
Undesignated	—	16	—	3	19
Available-for-sale securities:					
Current	—	1	1	—	2
Non-current	—	46	50	—	96
Deferred compensation assets	13	292	—	—	305
Total assets	$ 13	$ 361	$ 51	$ 5	$ 430
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$ —	$ 12	$ —	$ (12)	$ —
Undesignated	—	18	—	(15)	3
Total liabilities	$ —	$ 30	$ —	$ (27)	$ 3

September 30, 2017	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$ —	$ 10	$ —	$ (1)	$ 9
Undesignated	—	24	—	(3)	21
Available-for-sale securities:					
Current	—	2	1	—	3
Non-current	—	45	50	—	95
Deferred compensation assets	23	272	—	—	295
Total assets	$ 23	$ 353	$ 51	$ (4)	$ 423
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$ —	$ 9	$ —	$ (9)	$ —
Undesignated	—	21	—	(17)	4
Total liabilities	$ —	$ 30	$ —	$ (26)	$ 4

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. Additionally, at December 30, 2017, and September 30, 2017, we had $33 million and $22 million, respectively, of cash collateral posted with various counterparties where master netting arrangements exist and held no cash collateral.

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

	Three Months Ended December 30, 2017	December 31, 2016
Balance at beginning of year	$ 51	$ 57
Total realized and unrealized gains (losses):		
Included in earnings	—	—
Included in other comprehensive income (loss)	—	(1)
Purchases	4	4
Issuances	—	—
Settlements	(5)	(5)
Balance at end of period	$ 50	$ 55
Total gains (losses) for the three-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period	$ —	$ —

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Derivative Assets and Liabilities: Our derivative financial instruments primarily include exchange-traded and over-the-counter contracts which are further described in Note 12: Derivative Financial Instruments. We record our derivative financial instruments at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward market prices. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges or observable market transactions.
Available-for-Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Condensed Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Condensed Balance Sheets and have maturities ranging up to 31 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated condensed financial statements.
The following table sets forth our available-for-sale securities' amortized cost basis, fair value and unrealized gain (loss) by significant investment category (in millions):

	December 30, 2017			September 30, 2017		
	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	$48	$ 47	$ (1)	$ 47	$ 47	$ —
Corporate and asset-backed	50	50	—	51	51	—

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Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized no other than temporary impairment in earnings for the three months ended December 30, 2017, and December 31, 2016. No other than temporary losses were deferred in OCI as of December 30, 2017, and September 30, 2017.

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.

In the first quarter of fiscal 2018, we recorded a $26 million impairment charge related to the expected sale of non-protein businesses held for sale, due to revised estimates of the businesses' fair value based on current expected net sales proceeds. The impairment charge was recorded in Cost of Sales in our Consolidated Condensed Statement of Income for the first quarter of fiscal 2018, and primarily consisted of Goodwill previously classified within Assets held for sale. Our valuation included unobservable Level 3 inputs and was based on expected sales proceeds from a competitive bidding process and ongoing discussions with potential buyers.

We did not have any significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months ended December 31, 2016.

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):

	December 30, 2017		September 30, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total debt	$10,058	$ 9,686	$10,591	$10,203

NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of the net periodic cost for the pension and postretirement benefit plans for the three months ended December 30, 2017, and December 31, 2016, are as follows (in millions):

	Pension Plans	
	Three Months Ended	
	December 30, 2017	December 31, 2016
Service cost	$ 2	$ 3

Interest cost	16	16
Expected return on plan assets	(16)	(15)
Amortization of:		
Net actuarial loss	1	2
Net periodic cost	$ 3	$ 6

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	Postretirement Benefit Plans Three Months Ended	
	December 30, 2017	December 31, 2016
Amortization of:		
Prior service credit	$ (6)	$ (6)
Net periodic cost (credit)	$ (6)	$ (6)

We made a lump-sum settlement payment of $4 million for the three months ended December 30, 2017 to a certain deferred vested participant within one of our non-qualified pension plans.

We contributed $5 million and $9 million to our pension plans for the three months ended December 30, 2017, and December 31, 2016, respectively. We expect to contribute an additional $37 million during the remainder of fiscal 2018. The amount of contributions made to pension plans in any year is dependent upon a number of factors, including minimum funding requirements in the jurisdictions in which we operate. As a result, the actual funding in fiscal 2018 may differ from the current estimate.

NOTE 15: 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					
	December 30, 2017			December 31, 2016		
	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)	$—	$4	$(2)	$2
Unrealized gain (loss)	(2)	1	(1)	1	—	1
Investments:						
Unrealized gain (loss)	(1)	1	—	(1)	—	(1)
Currency translation:						
Translation adjustment	1	—	1	(14)	—	(14)
Postretirement benefits	2	—	2	(4)	1	(3)
Total other comprehensive income (loss)	$1	$1	$ 2	$(14)	$(1)	$(15)

NOTE 16: SEGMENT REPORTING

We operate in four reportable segments: Beef, Pork, Chicken, and Prepared Foods. We measure segment profit as operating income (loss). Other primarily includes our foreign chicken production operations in China and India, third-party merger and integration costs and corporate overhead related to Tyson New Ventures, LLC.

On June 7, 2017, we acquired AdvancePierre, a producer and distributor of value-added, convenient, ready-to-eat sandwiches, sandwich components and other entrées and snacks. On November 10, 2017, we acquired a value-added protein business. The results from operations subsequent to the acquisition closings are included in the Prepared Foods and Chicken segments.

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.

Chicken: Chicken includes our domestic operations related to raising and processing live chickens into, and purchasing raw materials for, fresh, frozen and value-added chicken products, as well as sales from allied products. Our value-added chicken products primarily include breaded chicken strips, nuggets, patties and other ready-to-fix or fully cooked chicken parts. 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.

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

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

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

	Three Months Ended	
	December 30, 2017	December 31, 2016
Sales:		
Beef	$3,886	$ 3,528
Pork	1,283	1,252
Chicken	2,997	2,706
Prepared Foods	2,292	1,895
Other	88	90
Intersegment sales	(317)	(289)
Total sales	$10,229	$ 9,182
Operating income (loss):		
Beef	$256	$ 299
Pork	151	247
Chicken	272	263
Prepared Foods	261	190
Other	(13)(a)	(17)
Total operating income	927	982
Total other (income) expense	85	70
Income before income taxes	$842	$ 912

(a) Other operating loss includes third-party merger and integration costs and corporate overhead of Tyson New Ventures, LLC of $4 million and $7 million for the three months ended December 30, 2017, and December 31, 2016, respectively.

The Beef segment had sales of $94 million and $72 million in the first quarter of fiscal 2018 and 2017, respectively, from transactions with other operating segments of the Company. The Pork segment had sales of $201 million and

$210 million in the first quarter of fiscal 2018 and 2017, respectively, from transactions with other operating segments of the Company. The Chicken segment had sales of $22 million and $7 million in the first quarter of fiscal 2018 and 2017, 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 17: COMMITMENTS AND CONTINGENCIES

Commitments

We guarantee obligations of certain outside third parties, consisting primarily of leases, debt and grower loans, which are substantially collateralized by the underlying assets. The remaining terms of the underlying debt cover periods up to 10 years, and the maximum potential amount of future payments as of December 30, 2017, was $26 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 10 years. The maximum potential amount of the residual value guarantees is $112 million, of which $103 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 December 30, 2017, and September 30, 2017, 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 commitment associated with these programs is limited to the fair value of each participating livestock supplier’s net tangible assets. The potential maximum commitment as of December 30, 2017, was approximately $370 million. We had $1 million of receivables under this program at December 30, 2017, and there were no receivables under this program at September 30, 2017. These receivables are included, net of allowance for uncollectible amounts, in Accounts Receivable in our Consolidated Condensed Balance Sheets. Even though these programs are limited to the net tangible assets of the participating livestock suppliers, we also manage a portion of our credit risk associated with these programs by obtaining security interests in livestock suppliers’ assets. After analyzing residual credit risks and general market conditions, we have no allowance for these programs’ estimated uncollectible receivables at December 30, 2017, and September 30, 2017.

When constructing new facilities or making major enhancements to existing facilities, we will occasionally enter into incentive agreements with local government agencies in order to reduce certain state and local tax expenditures. Under these agreements, we transfer the related assets to various local government entities and receive Industrial Revenue Bonds. We immediately lease the facilities from the local government entities and have an option to re-purchase the facilities for a nominal amount upon tendering the Industrial Revenue Bonds to the local government entities at various predetermined dates. The Industrial Revenue Bonds and the associated obligations for the leases of the facilities offset, and the underlying assets remain in property, plant and equipment. At December 30, 2017, total amount under these types of arrangements totaled $636 million.

Contingencies

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

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

- Bouaphakeo (f/k/a Sharp), et al. v. Tyson Foods, Inc., N.D. Iowa, February 6, 2007 - A jury trial was held involving our Storm Lake, Iowa pork plant which resulted in a jury verdict in favor of the plaintiffs for violations of federal and state laws for pre- and post-shift work activities. The trial court also awarded the plaintiffs liquidated damages, resulting in total damages awarded in the amount of $5,784,758. The plaintiffs' counsel has also filed an application for attorneys' fees and expenses in the amount of $2,692,145. We appealed the jury's verdict and trial court's award to the Eighth Circuit Court of Appeals. The appellate court affirmed the jury verdict and judgment on August 25, 2014, and we filed a petition for rehearing on September 22, 2014, which was denied. We filed a petition for a writ of certiorari with the United States Supreme Court, which was granted on June 8, 2015, and oral arguments before the Supreme Court occurred on November 10, 2015. On March 22, 2016, the Supreme Court affirmed the appellate court's rulings and remanded to the trial court to allocate the lump sum award among the class participants. On remand, the trial court determined that the lump sum award should be allocated to class participants according to the method prescribed by plaintiffs' expert at trial. Subsequently, a joint notice advising the court of a global settlement of this case, the Edwards matter (described below), and the consolidated Murray and DeVoss

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matter (also described below) was filed. The parties agreed to settle all three matters for a total payment of $12.6 million, inclusive of wages, penalties, interest, attorneys' fees and costs, and costs of settlement administration. The trial court approved the settlement, which became a final order on December 21, 2017, and a stipulation of dismissal was filed on December 22, 2017. A satisfaction of judgment in this case was filed on January 12, 2018.

- Edwards, et al. v. Tyson Foods, Inc. d.b.a. Tyson Fresh Meats, Inc., S.D. Iowa, March 20, 2008 - The trial court in this case, which involves our Perry and Waterloo, Iowa pork plants, decertified the state law class and granted other pre-trial motions that resulted in a judgment in our favor with respect to the plaintiffs' claims. The plaintiffs have filed a motion to modify this judgment. A joint motion for preliminary approval of the collective and class action settlement was filed on July 7, 2017. Please see the above Bouaphakeo description for additional details of a global settlement.
- Murray, et al. v. Tyson Foods, Inc., C.D. Illinois, January 2, 2008; and DeVoss v. Tyson Foods, Inc. d.b.a. Tyson Fresh Meats, C.D. Illinois, March 2, 2011 - These consolidated cases involve our Joslin, Illinois beef plant. A joint notice of settlement and a request to stay the proceedings was filed with and granted by the court on June 28, 2017. Please see the above Bouaphakeo description for additional details of a global settlement.
- Dozier, Southerland, et al. v. The Hillshire Brands Company, E.D. North Carolina, September 2, 2014 - This case involves our Tarboro, North Carolina prepared foods plant. On March 25, 2016, the parties filed a joint motion for settlement totaling $425,000, which includes all of the plaintiffs' attorneys' fees and costs. The court preliminarily approved the joint motion for settlement, entered an order of final approval on December 5, 2017, and then dismissed the case.

On September 2, 2016, Maplevale Farms, Inc., acting on behalf of itself and a putative class of direct purchasers of poultry products, filed a class action complaint against us and certain of our poultry subsidiaries, as well as several other poultry processing companies, in the Northern District of Illinois. Subsequent to the filing of this initial complaint, additional lawsuits making similar claims on behalf of putative classes of direct and indirect purchasers were filed in the United States District Court for the Northern District of Illinois. The court consolidated the complaints, for pre-trial purposes, into actions on behalf of three different putative classes: direct purchasers, indirect purchasers/consumers and commercial/institutional indirect purchasers. These three actions are styled In re Broiler Chicken Antitrust Litigation. Several amended and consolidated complaints have been filed on behalf of each putative class. The currently operative complaints allege, among other things, that beginning in January 2008 the defendants conspired and combined to fix, raise, maintain, and stabilize the price of broiler chickens in violation of United States antitrust laws. The complaints on behalf of the putative classes of indirect purchasers also include causes of action under various state unfair competition laws, consumer protection laws, and unjust enrichment common laws. The complaints also allege that defendants "manipulated and artificially inflated a widely used Broiler price index, the Georgia Dock." It is further alleged that the defendants concealed this conduct from the plaintiffs and the members of the putative classes. The plaintiffs are seeking treble damages, injunctive relief, pre- and post-judgment interest, costs, and attorneys' fees on behalf of the putative classes. The court issued a ruling on November 20, 2017 denying all defendants' motions to dismiss. The litigation is currently in a discovery phase. Decisions on class certification and summary judgment motions likely to be filed by defendants are not expected before the latter part of calendar year 2020 under the scheduling order currently governing the case. Scheduling for trial, if necessary, will occur after rulings on class certification and any summary judgment motions. Certain putative class members have opted out of this matter and are proceeding separately, and others may do so in the future.

On October 17, 2016, William Huser, acting on behalf of himself and a putative class of persons who purchased shares of Tyson Foods' stock between November 23, 2015, and October 7, 2016, filed a class action complaint against Tyson Foods, Inc., Donnie Smith and Dennis Leatherby in the Central District of California. The complaint alleged, among other things, that our periodic filings contained materially false and misleading statements by failing to disclose that the Company has colluded with other producers to manipulate the supply of broiler chickens in order to keep supply artificially low, as alleged in In re Broiler Chicken Antitrust Litigation. Subsequent to the filing of this initial complaint, additional lawsuits making similar claims were filed in the United States District Courts for the Southern District of New York, the Western District of Arkansas, and the Southern District of Ohio. Each of those cases have now been transferred to the United States District Court for the Western District of Arkansas and consolidated, and lead plaintiffs have been appointed. A consolidated complaint was filed on March 22, 2017 (which also named additional individual defendants). The consolidated complaint seeks damages, pre- and post-judgment interest, costs, and attorneys' fees. We filed a motion to dismiss this complaint, which the court granted on July 26, 2017. The plaintiffs filed a motion to amend or alter the judgment and to submit an amended complaint. That motion is pending.

On March 1, 2017, we received a civil investigative demand (CID) from the Office of the Attorney General, Department of Legal Affairs, of the State of Florida. The CID requests information primarily related to possible anticompetitive conduct in connection with the Georgia Dock, a chicken products pricing index formerly published by the Georgia Department of Agriculture. We are cooperating with the Attorney General's office.

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Our subsidiary, The Hillshire Brands Company (formerly named Sara Lee Corporation), is a party to a consolidation of cases filed by individual complainants with the Republic of the Philippines, Department of Labor and Employment and the National Labor Relations Commission (NLRC) from 1998 through July 1999. The complaint was filed against Aris Philippines, Inc., Sara Lee Corporation, Sara Lee Philippines, Inc., Fashion Accessories Philippines, Inc., and Attorney Cesar C. Cruz (collectively, the “respondents”). The complaint alleges, among other things, that the respondents engaged in unfair labor practices in connection with the termination of manufacturing operations in the Philippines in 1995 by Aris Philippines, Inc., a former subsidiary of The Hillshire Brands Company. In late 2004, a labor arbiter ruled against the respondents and awarded the complainants PHP3,453,664,710 (approximately US $69 million) in damages and fees. The respondents appealed the labor arbiter's ruling, and it was subsequently set aside by the NLRC in December 2006. Subsequent to the NLRC’s decision, the parties filed numerous appeals, motions for reconsideration and petitions for review, certain of which remained outstanding for several years. While various of those appeals, motions and/or petitions were pending, The Hillshire Brands Company, on June 23, 2014, without admitting liability, filed a settlement motion requesting that the Supreme Court of the Philippines order dismissal with prejudice of all claims against it and certain other respondents in exchange for payments allocated by the court among the complainants in an amount not to exceed PHP342,287,800 (approximately US $6.8 million). Based in part on its finding that the consideration to be paid to the complainants as part of such settlement was insufficient, the Supreme Court of the Philippines denied the respondents’ settlement motion and all motions for reconsideration thereof. The Supreme Court of the Philippines also set aside as premature the NLRC’s December 2006 ruling. As a result, the cases were remanded back before the NLRC to rule on the merits of the case. On December 15, 2016, we learned that the NLRC rendered its decision on November 29, 2016, regarding the respondents’ appeals regarding the labor arbiter’s 2004 ruling in favor of the complainants. The NLRC increased the award for 4,922 of the total 5,984 complainants to PHP14,858,495,937 (approximately US $297 million). However, the NLRC approved a prior settlement reached with the group comprising approximately 18% of the class of 5,984 complainants, pursuant to which The Hillshire Brands Company agreed to pay each settling complainant PHP68,000 (approximately US $1,360). The settlement payment was made on December 21, 2016, to the NLRC, which is responsible for distributing the funds to each settling complainant. On December 27, 2016, the respondents filed motions for reconsideration with the NLRC asking that the award be set aside. The NLRC denied respondents' motions for reconsideration in a resolution received on May 5, 2017, and entered a judgment on the award on July 24, 2017. Previously, from May 10, 2017 to May 12, 2017, Aris Philippines, Inc., Sara Lee Corporation and Sara Lee Philippines, Inc. each filed petitions for certiorari with requests for an immediate temporary restraining order and a writ of permanent injunction with the Philippines Court of Appeals. On August 18, 2017, the Court of Appeals granted a temporary restraining order precluding execution of the NLRC judgment against Aris Philippines, Inc., Sara Lee Corporation and Sara Lee Philippines, Inc. On November 23, 2017, the Court of Appeals granted a writ of preliminary injunction that will preclude execution of the NLRC judgment during the pendency of the appeal. We have recorded an accrual for this matter for the amount of loss that, at this time, we deem probable and enforceable. This accrual is reflected in the Company’s consolidated condensed financial statements and reflects an amount significantly less than the amount awarded by the labor arbiter in 2004 (i.e., PHP3,453,664,710 (approximately US $69 million)). The ultimate enforceable loss is uncertain, and if our accrual is not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations.

The Hillshire Brands Company was named as a defendant in an asbestos exposure case filed by Mark Lopez in May 2014 in the Superior Court of Alameda County, California. Mr. Lopez was diagnosed with mesothelioma in January 2014 and is now deceased. Mr. Lopez’s family members asserted negligence, premises liability and strict liability claims related to Mr. Lopez’s alleged asbestos exposure from 1954-1986 from the Union Sugar plant in Betteravia, California. The plant, which was sold in 1986, was owned by entities that were predecessors-in-interest to The Hillshire Brands Company. In August 2017, the jury returned a verdict of approximately $13 million in favor of the plaintiffs, and a judgment was entered. We have appealed the judgment.

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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 food companies and a recognized leader in protein. Founded in 1935 by John W. Tyson and grown under three generations of family leadership, the Company has a broad portfolio of products and brands like Tyson®, Jimmy Dean®, Hillshire Farm®, Ball Park®, Wright®, Aidells®, ibp® and State Fair®. 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 and feed ingredients; and operating efficiencies of our facilities.
We operate in four reportable segments: Beef, Pork, Chicken, and Prepared Foods. Other primarily includes our foreign chicken production operations in China and India, third-party merger and integration costs and corporate overhead related to Tyson New Ventures, LLC.
On June 7, 2017, we acquired and consolidated AdvancePierre Foods Holdings, Inc. ("AdvancePierre"), a producer and distributor of value-added, convenient, ready-to-eat sandwiches, sandwich components and other entrées and snacks. AdvancePierre's results from operations subsequent to the acquisition closing are included in the Prepared Foods and Chicken segments.
Overview

- General – Our operating income of $927 million remained strong in the first quarter of fiscal 2018, although down 5.6% from last year's record results, driven by record operating income in our Prepared Foods segment and strong performance in our Beef, Pork and Chicken segments. Sales increased 11.4% in the first quarter of fiscal 2018 over the first quarter of fiscal 2017, primarily driven by stronger demand for our beef and chicken products and the incremental impact from the acquisition of AdvancePierre.
- Market Environment - According to the United States Department of Agriculture (USDA), domestic protein production (beef, pork, chicken and turkey) increased approximately 3% in the first quarter of fiscal 2018 compared to the same period in fiscal 2017. The Beef segment experienced higher live cattle costs, strong export demand and more favorable domestic market conditions associated with an increase in cattle supply. Despite increased domestic availability of pork products, live hog markets rose which increased input costs for the Pork segment. There was stronger demand for our chicken products and slightly lower feed ingredient costs, which benefited the Chicken segment. Our Prepared Foods segment had improved demand for our foodservice products but experienced a decline in retail as well as higher input costs of approximately $45 million.
- Margins – Our total operating margin was 9.1% in the first quarter of fiscal 2018. Operating margins by segment were as follows:
  - Beef – 6.6%
  - Pork – 11.8%
  - Chicken – 9.1%
  - Prepared Foods – 11.4%
- Liquidity – We generated $1.1 billion of operating cash flows during the three months of fiscal 2018. At December 30, 2017, we had approximately $1.1 billion of liquidity, which included availability under our revolving credit facility after deducting amounts to backstop our commercial paper program and $293 million of cash and cash equivalents.
- Strategy - Our strategy is to sustainably feed the world with the fastest growing portfolio of protein brands. We intend to accomplish this by growing our portfolio of protein brands and delivering food at scale, which will be enabled by driving profitable growth with and for our customers through differentiated capabilities and creating fuel for reinvestment through a disciplined financial fitness model.
- On June 7, 2017, we acquired all of the outstanding stock of AdvancePierre as part of our overall strategy. The purchase price was equal to $40.25 per share in cash for AdvancePierre's outstanding common stock, or approximately $3.2 billion. We funded the acquisition with existing cash on hand, net proceeds from the issuance of new senior notes, as well as borrowings under our commercial paper program and new term loan facility. AdvancePierre's results from operations subsequent to the acquisition closing are included in the Prepared Foods and

Chicken segments. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 2: Acquisitions and Dispositions.

- In April 2017, we announced our intent to sell three non-protein businesses, Sara Lee® Frozen Bakery, Kettle and Van's®. In the first quarter of fiscal 2018, we made the decision to sell an additional non-protein business, which has a carrying value of approximately $50 million. All of these non-protein businesses are part of our Prepared Foods segment and are being sold as part of our strategic focus on protein brands. We completed the sale of our Kettle business on December 30, 2017, and received net proceeds of $125 million which were used to pay down debt. As a result of the sale, we recorded a pretax gain of $22 million. We reclassified the assets and liabilities related to these remaining businesses to assets and liabilities held for sale in our Consolidated Condensed Balance Sheet at December 30, 2017. In the first quarter of 2018, we recorded a pretax impairment charge totaling $26 million, due to revised estimates of the businesses' fair value based on current expected net sales proceeds. The impairment charge was recorded in Cost of Sales in our Consolidated Condensed Statement of Income for the three months ended December 30, 2017, and primarily consisted of goodwill previously classified within assets held for sale. The net carrying value of the combined held for sale businesses at December 30, 2017 was $704 million. We anticipate we will close on the sale of the Sara Lee® Frozen Bakery, Van's® and the additional non-protein business in the back half of fiscal 2018. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 2: Acquisitions and Dispositions.

In the fourth quarter of fiscal 2017, our Board of Directors approved a multi-year restructuring program (the "Financial Fitness Program"), which is expected to contribute to the Company's overall strategy of financial fitness through increased operational effectiveness and overhead reduction. Through a combination of synergies from the integration of AdvancePierre and additional elimination of non-valued added costs, the Financial Fitness Program is estimated to result in cumulative net savings of $200 million in fiscal 2018, $400 million in fiscal 2019 including new savings of $200 million, and $600 million in fiscal 2020 including additional savings of $200 million. Approximately 50-60% of these net savings, which are focused on supply chain, procurement, and overhead improvements, are expected to be realized in the Prepared Foods segment with the majority of the remaining net savings impacting the Chicken segment. Additionally, we estimate that approximately 75% of the net savings will be reflected in Cost of Sales in our Consolidated Statement of Income, with the remaining in Selling, General and Administrative. In the first quarter of fiscal 2018, we realized $37 million of Financial Fitness Program cost savings.

As part of the Financial Fitness Program, we anticipate eliminating approximately 600 positions across several areas and job levels with most of the eliminated positions originating from the corporate offices in Springdale, Arkansas; Chicago, Illinois; and Cincinnati, Ohio. As a result, in the first quarter of fiscal 2018, the Company recognized restructuring and related charges of $19 million that consisted of $3 million severance and employee related costs and $16 million technology related costs. The Company currently anticipates the Financial Fitness Program will result in cumulative pretax charges, once implemented, of approximately $218 million which consist primarily of severance and employee related costs, asset impairments, accelerated depreciation, incremental costs to implement new technology, and contract termination costs. Through December 30, 2017, $169 million of the estimated $218 million total pretax charges, has been recognized. The following tables set forth the pretax impact of restructuring and related charges incurred in the first quarter of fiscal 2018 in the Consolidated Condensed Statements of Income and the pretax impact by our reportable segments. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 5: Restructuring and Related Charges.

in millions

	Three Months Ended December 30, 2017
Cost of Sales	$ —
Selling, general and administrative expenses	19
Total restructuring and related charges, pretax	$ 19

			in millions
	Three Months Ended	Financial Fitness Program charges to date	

	December 30, 2017	December 30, 2017	Total estimated Financial Fitness Program charges
Beef	$ 1	$ 9	$ 13
Pork	1	4	6
Chicken	9	65	89
Prepared Foods	8	90	109
Other	—	1	1
Total restructuring and related charges, pretax	$ 19	$ 169	$ 218

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in millions, except per share data	Three Months Ended	
	December 30, 2017	December 31, 2016
Net income attributable to Tyson	$1,631	$ 593
Net income attributable to Tyson – per diluted share	4.40	1.59

First quarter– Fiscal 2018 – Net income attributable to Tyson included the following items:

- $994 million post tax, or $2.68 per diluted share, tax benefit from remeasurement of net deferred tax liabilities at lower enacted tax rates.
- $19 million pretax, or ($0.04) per diluted share, of restructuring and related charges.
- $4 million pretax, or ($0.05) per diluted share, impairment net of realized gain associated with the divestiture of non-protein businesses.

Summary of Results

Sales

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Sales	$10,229	$ 9,182
Change in sales volume	5.2 %	2.4 %
Change in average sales price	5.9 %	(2.0)%
Sales growth	11.4 %	0.3 %

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales Volume – Sales were positively impacted by an increase in sales volume, which accounted for an increase of $473 million. The Beef, Chicken and Prepared Foods segments had an increase in sales volume driven by better demand for our beef and chicken products and incremental volumes from the acquisition of AdvancePierre, which impacted the Chicken and Prepared Foods segments.
- Average Sales Price – Sales were positively impacted by higher average sales prices across all segments, which accounted for an increase of $574 million. The Beef segment experienced strong demand, and the Chicken and Prepared Foods segments were positively impacted by the acquisition of AdvancePierre as well as improved mix.
- The above amounts include a net increase of $396 million related to the inclusion of the AdvancePierre results post acquisition.

Cost of Sales

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Cost of sales	$8,778	$ 7,699
Gross profit	$1,451	$ 1,483
Cost of sales as a percentage of sales	85.8 %	83.8 %

First quarter – Fiscal 2018 vs Fiscal 2017

- Cost of sales increased $1,080 million. Higher input cost per pound increased cost of sales $683 million while higher sales volume increased cost of sales $397 million. These amounts include a net increase of $298 million related to the inclusion of AdvancePierre results post acquisition.
- The $683 million impact of higher input cost per pound was primarily driven by:
- Increase in live cattle costs of approximately $225 million in our Beef segment.
- Increase in live hog costs of approximately $100 million in our Pork segment.
- Increase in raw material and other input costs of approximately $45 million in our Prepared Foods segment.
- Increase of approximately $30 million in our Chicken segment related to net increases in freight, growout expenses and outside meat purchases.

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- Increase in input cost per pound related to the acquisition of AdvancePierre on June 7, 2017.
- Increase due to net realized derivative losses of $33 million in the first quarter of fiscal 2018, compared to net realized derivative gains of $46 million in the first quarter of fiscal 2017 due to our risk management activities. These amounts exclude offsetting impacts from related physical purchase transactions, which are included in the change in live cattle and hog costs and raw material and feed costs described above. Cost of sales losses due to net realized derivatives were partially offset by a decrease in net unrealized gain of $4 million in the first quarter of fiscal 2018, compared to net unrealized losses of $23 million in the first quarter of fiscal 2017, primarily due to our Beef segment commodity risk management activities.
- Remainder of net change is mostly due to increased cost per pound from a mix upgrade in the Chicken segment as we increased sales volume in value-added products, as well as increased labor and freight costs across all segments.
- The $397 million impact of higher sales volume was driven by increases in sales volume in each segment except the Pork segment, with the majority of the increase in the Chicken and Prepared Foods segments.

Selling, General and Administrative

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Selling, general and administrative expense	$524	$ 501
As a percentage of sales	5.1 %	5.5 %

First quarter – Fiscal 2018 vs Fiscal 2017

- Increase of $23 million in selling, general and administrative was primarily driven by:
- Increase of $62 million related to the AdvancePierre acquisition, which included $34 million in incremental amortization and $28 million from the inclusion of AdvancePierre results post-acquisition.
- Increase of $19 million from restructuring and related charges.
- Decrease of $25 million in employee costs including payroll and stock-based and incentive-based compensation, which also included a reduction of $15 million compensation and benefit integration expense incurred in fiscal 2017 that did not recur in 2018.
- Decrease of $19 million in marketing, advertising, and promotion expenses.
- Decrease of $10 million in non-restructuring severance related expenses.
- Remainder of net change was primarily related to professional fees.

Interest Expense

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Cash interest expense	$ 89	$ 58
Non-cash interest expense	(1)	—
Total interest expense	$ 88	$ 58

First quarter – Fiscal 2018 vs Fiscal 2017

- Cash interest expense primarily included interest expense related to our senior notes, term loans and commercial paper and commitment/letter of credit fees incurred on our revolving credit facility. The increase in cash interest expense in fiscal 2018 was primarily due to debt issued in connection with the AdvancePierre acquisition.

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Other (Income) Expense, net

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Total other (income) expense, net	$ (1)	$ 14

First quarter – Fiscal 2018

- Included $3 million of equity earnings in joint ventures and $3 million in net foreign currency exchange losses, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

First quarter – Fiscal 2017

- Included $16 million of legal cost related to a 1995 plant closure of an apparel manufacturing facility operated by a former subsidiary of The Hillshire Brands Company, which was acquired by us in fiscal 2014. Also, included $1 million in net foreign currency exchange losses and $3 million of income from equity earnings in joint ventures.

Effective Tax Rate

Three Months Ended	
December 30, 2017	December 31, 2016
(93.8)%	34.9 %

Our effective income tax rate was (93.8)% for the first quarter of 2018 compared to 34.9% for the same period of fiscal 2017. The effective tax rate for the first quarter of 2018 reflects impacts of the Tax Cuts and Jobs Act signed into law on December 22, 2017. These impacts include a $994 million benefit related to the remeasurement of deferred taxes, as well as a 24.5% statutory federal income tax rate for fiscal 2018 compared to the 35% statutory federal income tax rate effective for the prior year. Additionally, the effective tax rate for the first quarter 2018 includes 2.3% benefit related to excess tax benefits associated with share-based payments to employees; similar tax benefits were recorded as adjustments to equity in years prior to our adoption of new accounting guidance in the first quarter of fiscal 2018.

We currently expect an annual effective tax rate of approximately (4)% in fiscal 2018 and 25% in 2019. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 9: Income Taxes.

Segment Results

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

in millions	Sales	
	Three Months Ended	
	December 30, 2017	December 31, 2016
Beef	$3,886	$ 3,528
Pork	1,283	1,252
Chicken	2,997	2,706
Prepared Foods	2,292	1,895
Other	88	90
Intersegment sales	(317)	(289)
Total	$10,229	$ 9,182

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in millions	Operating Income (Loss)	
	Three Months Ended	
	December 30, 2017	December 31, 2016
Beef	$256	$ 299
Pork	151	247
Chicken	272	263
Prepared Foods	261	190
Other	(13)	(17)
Total	$927	$ 982

Beef Segment Results

in millions	Three Months Ended		Change
	December 30, 2017	December 31, 2016	
Sales	$3,886	$ 3,528	$358
Sales volume change			4.5 %
Average sales price change			5.4 %
Operating income	$256	$ 299	$(43)
Operating margin	6.6 %	8.5 %	

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales Volume – Sales volume increased due to improved availability of cattle supply, stronger demand for our beef products and increased exports.
- Average Sales Price – Average sales price increased as demand for our beef products and strong exports outpaced the increase in live cattle supplies.
- Operating Income – Operating income remained strong, although below prior year's record results, as we continued to maximize our revenues relative to the higher live fed cattle costs, partially offset by increased labor and freight costs.

Pork Segment Results

in millions	Three Months Ended		Change
	December 30, 2017	December 31, 2016	
Sales	$1,283	$ 1,252	$31
Sales volume change			(2.6)%
Average sales price change			5.2 %
Operating income	$151	$ 247	$(96)
Operating margin	11.8 %	19.7 %	

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales Volume – Sales volume decreased as a result of balancing our supply with customer demand during a period of margin compression.
- Average Sales Price – Average sales price increased due to price increases associated with higher livestock costs.
- Operating Income – We were able to maintain strong operating margins, although below prior year's record results, by maximizing our revenues relative to the live hog markets due to operational and mix performance, which were partially offset by margin compression and higher labor and freight costs.

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Chicken Segment Results

in millions	Three Months Ended		
	December 30, 2017	December 31, 2016	Change
Sales	$2,997	$ 2,706	$291
Sales volume change			7.3 %
Average sales price change			3.2 %
Operating income	$272	$ 263	$9
Operating margin	9.1 %	9.7 %	

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales Volume – Sales volume was up due to strong demand for our chicken products along with the incremental volume from the AdvancePierre acquisition.
- Average Sales Price – Average sales price increased due to sales mix changes.
- Operating Income – Operating income benefited from $14 million of Financial Fitness Program cost savings, the positive incremental impact of AdvancePierre and slightly lower feed costs, partially offset by increased labor, freight and growout expenses.

Prepared Foods Segment Results

in millions	Three Months Ended		
	December 30, 2017	December 31, 2016	Change
Sales	$2,292	$ 1,895	$397
Sales volume change			11.6 %
Average sales price change			8.4 %
Operating income	$261	$ 190	$71
Operating margin	11.4 %	10.0 %	

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales Volume – Sales volume increased primarily from incremental volumes from the AdvancePierre acquisition.
- Average Sales Price – Average sales price increased from higher input costs of $45 million and product mix which was positively impacted by the acquisition of AdvancePierre.
- Operating Income – Operating income increased due to $24 million of Financial Fitness Program cost savings, improved mix and the positive incremental impact of AdvancePierre, partially offset by higher input and freight costs.

Other Results

in millions	Three Months Ended		
	December 30, 2017	December 31, 2016	Change
Sales	$88	$ 90	$ (2)
Operating loss	$(13)	$ (17)	$ 4

First quarter – Fiscal 2018 vs Fiscal 2017

- Sales – Sales decreased in the first quarter of fiscal 2018 due to a decline in sales volume in our foreign chicken production operations.
- Operating Loss – Operating loss improved in the first quarter of fiscal 2018 primarily from lower third-party merger and integration costs.

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LIQUIDITY AND CAPITAL RESOURCES

Our cash needs for working capital, capital expenditures, growth opportunities, the repurchases of senior notes, repayment of term loans 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.

Cash Flows from Operating Activities

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Net income	$1,632	$ 594
Non-cash items in net income:		
Depreciation and amortization	229	177
Deferred income taxes	(967)	(4)
Other, net	29	7
Net changes in operating assets and liabilities	203	360
Net cash provided by operating activities	$1,126	$ 1,134

- Deferred income taxes for the three months ended December 30, 2017, included a $994 million benefit related to remeasurement of net deferred income tax liabilities at newly enacted tax rates.
- Cash flows associated with net changes in operating assets and liabilities for the three months ended:
- December 30, 2017 – Increased primarily due to decreased accounts receivable and increased income tax payable balances, partially offset by decreased accrued employee costs. The changes in these balances are largely due to the timing of sales and payments.
- December 31, 2016 – Increased primarily due to decreased accounts receivable and income tax receivable balances and increased accounts payable and income taxes payable balances, partially offset by decreased accrued employee costs. The decreased accounts receivable, income tax receivable and accrued employee costs, as well as the increased accounts payable and income taxes payable balances are largely due to the timing of sales and payments.
- Incremental tax reform cash flow in fiscal 2018 is expected to exceed $300 million which we intend to invest in our frontline team members and to sustainably grow our businesses. As part of this, we expect to pay more than $100 million in one-time cash bonuses to our eligible frontline employees in the second quarter of fiscal 2018 using incremental cash generated from tax reform.

Cash Flows from Investing Activities

in millions	Three Months Ended	
	December 30, 2017	December 31, 2016
Additions to property, plant and equipment	$(296)	$ (200)
(Purchases of)/Proceeds from marketable securities, net	(3)	(2)
Acquisition, net of cash acquired	(226)	—
Proceeds from sale of business	125	—
Other, net	(22)	(12)
Net cash used for investing activities	$(422)	$ (214)

- Additions to property, plant and equipment included spending for production growth, safety and animal well-being, in addition to acquiring new equipment, infrastructure replacements and upgrades to maintain competitive standing and position us for future opportunities. We expect capital spending for fiscal 2018 to approximate $1.4 to $1.5 billion, which includes $100 million incremental tax reform investment.
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Acquisition, net of cash acquired related to acquiring a valued-added protein business in the first quarter of fiscal 2018. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 2: Acquisitions and Dispositions.

- Proceeds from sale of business related to the proceeds received from sale of our Kettle business in the first quarter of fiscal 2018. For further description refer to Part I, Item 1, Notes to the Consolidated Condensed Financial Statements, Note 2: Acquisitions and Dispositions.

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Cash Flows from Financing Activities
in millions

	Three Months Ended	
	December 30, 2017	December 31, 2016
Payments on debt	$(429)	$ (20)
Borrowings on revolving credit facility	655	435
Payments on revolving credit facility	(650)	(735)
Proceeds from issuance of commercial paper	5,728	—
Repayments of commercial paper	(5,824)	—
Purchases of Tyson Class A common stock	(164)	(576)
Dividends	(108)	(79)
Stock options exercised	63	6
Other, net	—	12
Net cash used for financing activities	$(729)	$ (957)

- During the three months of fiscal 2018, we extinguished the $427 million outstanding balance of the Term Loan Tranche B due in August 2019 using cash on hand and proceeds received from the sale of a non-protein business.
- During the three months of fiscal 2017, we had net payments on our revolver of $300 million. We utilized our revolving credit facility for general corporate purposes.
- During the three months of fiscal 2018, we had net repayments of $96 million in unsecured short-term promissory notes (commercial paper) pursuant to our commercial paper program.
- Purchases of Tyson Class A stock included:
- $120 million and $550 million of shares repurchased pursuant to our share repurchase program during the three months ended December 30, 2017, and December 31, 2016, respectively.
- $44 million and $26 million of shares repurchased to fund certain obligations under our equity compensation programs during the three months ended December 30, 2017, and December 31, 2016, respectively.
- We currently do not plan to repurchase shares other than to offset dilution from our equity compensation programs. We will consider additional share repurchases when our net debt to EBITDA ratio is around 2x, which we currently anticipate will occur in the third quarter of fiscal 2018.
- Dividends paid during the three months of fiscal 2018 included a 33% increase to our fiscal 2017 quarterly dividend rate.

Liquidity
in millions

	Commitments Expiration Date	Facility Amount	Outstanding Letters of Credit (no draw downs)	Amount Borrowed	Amount Available at December 30, 2017
Cash and cash equivalents					$ 293
Short-term investments					2
Revolving credit facility	May 2022	$ 1,500	$ 7	$ 5	1,488
Commercial paper					(682)
Total liquidity					$ 1,101

- Liquidity includes cash and cash equivalents, short-term investments, and availability under our revolving credit facility, less outstanding commercial paper balance.
- At December 30, 2017, we had current debt of $811 million, which we intend to repay with cash generated from our operating activities and other liquidity sources.
- The revolving credit facility supports our short-term funding needs and letters of credit and also serves to backstop our commercial paper program. The letters of credit issued under this facility are primarily in support of leasing and workers' compensation insurance programs and other legal obligations. Our maximum borrowing under the revolving

credit facility during the three months of fiscal 2018 was $150 million.

- We expect net interest expense to approximate $335 million for fiscal 2018.
- At December 30, 2017, approximately $272 million 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. 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. Historically our intention has been to permanently reinvest outside of the United States, the cash held by foreign subsidiaries, or to repatriate the cash only when it is tax efficient to do so. We

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are currently considering repatriating a portion of these funds; however, we do not expect the regulatory restrictions or taxes on repatriation to have a material effect on our overall liquidity, financial condition or the results of operations for the foreseeable future.

•Our current ratio was 1.51 to 1 and 1.55 to 1 at December 30, 2017, and September 30, 2017, respectively.

Capital Resources

Credit Facility

Cash flows from operating activities and 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 capacity of $1.5 billion, to provide additional liquidity for working capital needs, letters of credit, and to backstop our commercial paper program.

At December 30, 2017, we had $5 million of outstanding borrowings and $7 million of outstanding letters of credit issued under this facility, none of which were drawn upon, which left $1,488 million available for borrowing. Our revolving credit facility is funded by a syndicate of 41 banks, with commitments ranging from $0.3 million to $106 million per bank. The syndicate includes bank holding companies that are required to be adequately capitalized under federal bank regulatory agency requirements.

Commercial Paper Program

Our commercial paper program provides a low-cost source of borrowing to fund general corporate purposes including working capital requirements. The maximum borrowing capacity under the commercial paper program is $800 million. The maturities of the notes may vary, but may not exceed 397 days from the date of issuance. As of December 30, 2017, $682 million was outstanding under this program with maturities of less than 45 days.

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 net debt to EBITDA as support for our long-term financing decisions. At December 30, 2017, and September 30, 2017, the ratio of our net debt to EBITDA was 2.6x and 2.7x, respectively. Refer to Part I, Item 3, EBITDA Reconciliations, for an explanation and reconciliation to comparable GAAP measures.

Credit Ratings

Term Loan: Tranche B due August 2020

Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"), credit rating for Tyson Foods, Inc.'s term loan is "BBB." Moody’s Investor Service, Inc. ("Moody's") credit rating for the term loan is "Baa2." Fitch Ratings, a wholly owned subsidiary of Fimlac, S.A. ("Fitch"), credit rating for the term loan is "BBB." The below table outlines the borrowing spread on the outstanding principal balance of our term loan that corresponds to the ratings levels from S&P, Moody's and Fitch.

Ratings Level (S&P/Moody's/Fitch)	Tranche B due August 2020 Borrowing Spread	
BBB+/Baa1/BBB+ or higher	0.750	%
BBB/Baa2/BBB (current level)	0.800	%
BBB-/Baa3/BBB-	1.125	%
BB+/Ba1/BB+	1.375	%
BB/Ba2/BB or lower	1.375	%

Revolving Credit Facility

S&P’s corporate credit rating for Tyson Foods, Inc. is "BBB." Moody’s, senior unsecured, long-term debt rating for Tyson Foods, Inc. is "Baa2." Fitch's 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	
A-/A3/A- or above	0.100	%	1.000	%
BBB+/Baa1/BBB+	0.125	%	1.125	%

BBB/Baa2/BBB (current level)	0.150	%	1.250	%
BBB-/Baa3/BBB-	0.200	%	1.500	%
BB+/Ba1/BB+ or lower	0.250	%	1.750	%

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

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

We were in compliance with all debt covenants at December 30, 2017.

RECENTLY ISSUED/ADOPTED ACCOUNTING PRONOUNCEMENTS

Refer to the discussion of recently issued/adopted 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, advertising and promotion costs; accrued self-insurance; defined benefit pension plans; impairment of long-lived assets and definite life intangibles; impairment of goodwill and indefinite life 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 30, 2017.

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 2018, 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) 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; (ii) 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; (iii) 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; (iv) the integration of AdvancePierre Foods Holdings, Inc.; (v) the effectiveness of our financial fitness program; (vi) the implementation of an enterprise resource planning system; (vii) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (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)

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effectiveness of advertising and marketing programs; (xii) our ability to leverage brand value propositions; (xiii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiv) impairment in the carrying value of our goodwill or indefinite life intangible assets; (xv) 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; (xvi) adverse results from litigation; (xvii) cyber incidents, security breaches or other disruptions of our information technology systems; (xviii) our ability to make effective acquisitions or joint ventures and successfully integrate newly acquired businesses into existing operations; (xix) risks associated with our commodity purchasing activities; (xx) the effect of, or changes in, general economic conditions; (xxi) significant marketing plan changes by large customers or loss of one or more large customers; (xxii) impacts on our operations caused by factors and forces beyond our control, such as natural disasters, fire, bioterrorism, pandemics or extreme weather; (xxiii) failure to maximize or assert our intellectual property rights; (xxiv) our participation in a multiemployer pension plan; (xxv) the Tyson Limited Partnership's ability to exercise significant control over the Company; (xxvi) effects related to changes in tax rates, valuation of deferred tax assets and liabilities, or tax laws and their interpretation; (xxvii) volatility in capital markets or interest rates; and (xxviii) those factors listed under Item 1A. "Risk Factors" in this report and Part I, Item 1A. "Risk Factors" included in our Annual Report filed on Form 10-K for the year ended September 30, 2017.

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 December 30, 2017, and September 30, 2017, 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 included hedge and non-hedge derivative financial instruments.

Effect of 10% change in fair value		in millions
	December 30, 2017	September 30, 2017

Livestock:		
Live Cattle	$ 29	$ 23
Lean Hogs	17	16
Grain:		
Corn	25	17
Soy Meal	13	13

Interest Rate Risk: At December 30, 2017, we had variable rate debt of $2,237 million with a weighted average interest rate of 2.0%. A hypothetical 10% increase in interest rates effective at December 30, 2017, and September 30, 2017, would have a minimal effect on interest expense.

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Additionally, changes in interest rates impact the fair value of our fixed-rate debt. At December 30, 2017, we had fixed-rate debt of $7,449 million with a weighted average interest rate of 4.1%. 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 $153 million at December 30, 2017, and $150 million at September 30, 2017. The fair values of our debt were estimated based on quoted market prices and/or published interest rates.

We have interest rate risk associated with our pension and post-retirement benefit obligations. Changes in interest rates impact the liabilities associated with these benefit plans as well as the amount of income or expense recognized for these plans. Declines in the value of the plan assets could diminish the funded status of the pension plans and potentially increase the requirements to make cash contributions to these plans. See Part II, Item 8, Notes to Consolidated Financial Statements, Note 15: Pensions and Other Postretirement Benefits in our Annual Report on Form 10-K for the year ended September 30, 2017, for additional information.

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 Japanese yen 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 December 30, 2017, and September 30, 2017, related to the foreign exchange forward and option contracts would have a $5 million and $7 million impact, respectively, on pretax income.

Concentration of Credit Risk: Refer to our market risk disclosures set forth in our 2017 Annual Report filed on Form 10-K for the year ended September 30, 2017, for a detailed discussion of quantitative and qualitative disclosures about concentration of credit risks, as these risk disclosures have not changed significantly from the 2017 Annual Report.

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EBITDA Reconciliations

A reconciliation of net income to EBITDA is as follows (in millions, except ratio data):

	Three Months Ended		Fiscal Year Ended	Twelve Months Ended
	December 30, 2017	December 31, 2016	September 30, 2017	December 30, 2017
Net income	$1,632	$ 594	$ 1,778	$ 2,816
Less: Interest income	(2)	(2)	(7)	(7)
Add: Interest expense	88	58	279	309
Add: Income tax (benefit) expense	(790)	318	850	(258)
Add: Depreciation	175	156	642	661
Add: Amortization (a)	51	19	106	138
EBITDA	$1,154	$ 1,143	$ 3,648	$ 3,659
Total gross debt			$ 10,203	$ 9,686
Less: Cash and cash equivalents			(318)	(293)
Less: Short-term investments			(3)	(2)
Total net debt			$ 9,882	$ 9,391
Ratio Calculations:				
Gross debt/EBITDA			2.8x	2.6x
Net debt/EBITDA			2.7x	2.6x

(a) Excludes the amortization of debt discount expense of $3 million and $2 million for the three months ended December 30, 2017, and December 31, 2016, respectively, $13 million for the fiscal year ended September 30, 2017, and $14 million for the twelve months ended December 30, 2017, as it is included in interest expense.

EBITDA represents net income, net of interest, income tax and depreciation and amortization. Net debt to EBITDA represents the ratio of our debt, net of cash and short-term investments, to EBITDA. EBITDA and net debt to EBITDA are presented as supplemental financial measurements in the evaluation of our business. We believe the presentation of these financial measures helps investors to assess our operating performance from period to period, including our ability to generate earnings sufficient to service our debt, and enhances understanding of our financial performance and highlights operational trends. These measures are widely used by investors and rating agencies in the valuation, comparison, rating and investment recommendations of companies; however, the measurements of EBITDA and net debt to EBITDA may not be comparable to those of other companies, which limits their usefulness as comparative measures. EBITDA and net debt to EBITDA are not measures required by or calculated in accordance with generally accepted accounting principles (GAAP) and should not be considered as substitutes for net income or any other measure of financial performance reported in accordance with GAAP or as a measure of operating cash flow or liquidity. EBITDA is a useful tool for assessing, but is not a reliable indicator of, our ability to generate cash to service our debt obligations because certain of the items added to net income to determine EBITDA involve outlays of cash. As a result, actual cash available to service our debt obligations will be different from EBITDA. Investors should rely primarily on our GAAP results, and use non-GAAP financial measures only supplementally, in making investment decisions.

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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 December 30, 2017, our disclosure controls and procedures were effective.

On June 7, 2017, the Company completed the acquisition of AdvancePierre. See Part I, Item 1, Notes to Consolidated Condensed Financial Statements, Note 2: Acquisitions and Dispositions, for a discussion of the acquisition and related financial data. The Company is in the process of integrating AdvancePierre and the Company's internal controls over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be changed. Excluding the AdvancePierre acquisition, 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 17: 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 January 27, 2017, Haff Poultry, Inc., Craig Watts, Johnny Upchurch, Jonathan Walters and Brad Carr, acting on behalf of themselves and a putative class of broiler chicken farmers, filed a class action complaint against Tyson and certain of its poultry subsidiaries, as well as several other vertically-integrated poultry processing companies, in the United States District Court for the Eastern District of Oklahoma. On March 28, 2017, a second class action complaint making similar claims on behalf of a similarly defined putative class was filed in the United States District Court for the Eastern District of Oklahoma. Plaintiffs in the two cases sought to have the matters consolidated, and, on July 10, 2017, filed a consolidated amended complaint styled In re Broiler Chicken Grower Litigation. The plaintiffs allege, among other things, that the defendants colluded not to compete for broiler raising services "with the purpose and effect of fixing, maintaining, and/or stabilizing grower compensation below competitive levels." The plaintiffs also allege that the defendants "agreed to share detailed data on [g]rower compensation with one another, with the purpose and effect of artificially depressing [g]rower compensation below competitive levels." The plaintiffs contend these alleged acts constitute violations of the Sherman Antitrust Act and Section 202 of the Grain Inspection, Packers and Stockyards Act of 1921. The plaintiffs are seeking treble damages, pre- and post-judgment interest, costs, and attorneys' fees on behalf of the putative class. We and the other defendants filed a motion to dismiss on September 8, 2017. That motion is pending.

On April 23, 2015, the United States Environmental Protection Agency (EPA) issued a Finding and Notice of Violation (NOV) to Tyson Foods, Inc. and our subsidiary, Southwest Products, LLC, alleging violations of the California Truck and Bus Regulation. The NOV alleged that certain diesel-powered trucks operated by us in California did not comply with California's emission requirements for in-use trucks and that we did not verify the compliance status of independent carriers hired to carry products in California. In January 2016, the EPA proposed that we pay a civil penalty of $283,990 to resolve these allegations. In June 2017, the EPA withdrew this proposal and referred the matter to the California Air Resources Board (CARB). We are cooperating with the CARB and, in July 2017, we signed a tolling agreement with the CARB. The CARB has not yet made a demand in the matter.

On June 17, 2014, the Missouri attorney general filed a civil lawsuit against us in the Circuit Court of Barry County, Missouri, 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. In January 2015, a consent judgment was entered that resolved the lawsuit. The judgment required payment of $540,000, which included amounts for penalties, cost recovery and supplemental environmental projects. We subsequently satisfied all these requirements, and the consent judgment was terminated in January 2017. Following a criminal investigation by the EPA into the incident, one of the Company's subsidiaries, Tyson Poultry, Inc., pled guilty to two misdemeanor violations of the federal Clean Water Act pursuant to a plea agreement conditionally approved on September 27, 2017 by the United States District Court for the Western District of Missouri. Under the terms of the plea agreement, Tyson Poultry, Inc. has agreed to pay a $2 million fine, to make a $500,000 community service payment and to fund third-party environmental audits of numerous feed mills and wastewater treatment plants. The court will determine whether to grant final approval of the terms of the plea agreement at a sentencing hearing scheduled for February 27, 2018.

On June 19, 2005, the Attorney General and the Secretary of the Environment of the State of Oklahoma filed a complaint in the United States District Court for the Northern District of Oklahoma against Tyson Foods, Inc., three 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 the Comprehensive Environmental Response, Compensation, and Liability Act, Resource Conservation and Recovery Act, and state-law public nuisance theories. Oklahoma alleges that the defendants and certain contract growers who were not joined in the lawsuit polluted the surface waters, groundwater and associated drinking water supplies of the Illinois River Watershed through the land application of poultry litter. Oklahoma's claims were narrowed through various rulings issued before and during trial and its claims for natural resource damages were dismissed by the district court in a ruling issued on July 22, 2009, which was subsequently affirmed on appeal by the Tenth Circuit Court of Appeals. A non- jury trial of the remaining claims including Oklahoma's request for injunctive relief began on September 24, 2009. Closing arguments were held on February 11, 2010. The district court has not yet rendered its decision from the trial.

Other Matters: As of September 30, 2017, we had approximately 122,000 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.

Item 1A. Risk Factors

There have been no material changes to the risk factors listed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2017. These risk factors should be considered carefully with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations.

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)
Oct 1, 2017 to Oct. 28, 2017	109,389		$ 70.63	—		27,821,995
Oct. 29, 2017 to Dec. 2, 2017	1,929,698		78.71	1,513,301		26,308,694
Dec. 3, 2017 to Dec. 30, 2017	47,104		82.43	—		26,308,694
Total	2,086,191	(2)	$ 78.37	1,513,301	(3)	26,308,694

(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, on January 30, 2014, our Board of Directors approved an increase of 25 million shares and, on February 4, 2016, our Board of Directors approved an increase of 50 million shares, authorized for repurchase under our share repurchase program. The program has no fixed or scheduled termination date.

(2) We purchased 572,890 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 242,358 shares purchased in open market transactions and 330,532 shares withheld to cover required tax withholdings on the vesting of restricted stock.

(3) These shares were purchased during the period pursuant to our previously announced stock repurchase program.

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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
10.1	*	Second Amended and Restated Employment Agreement, dated November 9, 2017, by and between the Company and John Tyson (previously filed as Exhibit 10.76 to the Company's Annual Report on Form 10-K filed on November 13, 2017, Commission File No. 001-14704, and incorporated herein by reference).
10.2	*	Employment Agreement, dated December 11, 2017, by and between the Company and Stewart Glendinning.
10.3	*	Employment Agreement, dated December 11, 2017, by and between the Company and Amy Tu.
10.4	*	Employment Agreement, dated June 26, 2017, by and between the Company and Jay Scott Spradley.
10.5	*	Employment Agreement, dated May 1, 2017, by and between the Company and Justin Whitmore.
10.6	*	First Amendment to the Tyson Foods, Inc. Supplemental Executive Retirement and Life Insurance Premium Plan, as amended and restated as of November 16, 2017.
10.7	*	First Amendment to the Executive Savings Plan of Tyson Foods Inc., as amended and restated as of November 16, 2017.
10.8	*	Form of Performance Shares Operating Income Stock Incentive Agreement pursuant to which performance shares are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.9	*	Form of Performance Shares Total Shareholder Return Stock Incentive Agreement pursuant to which performance shares are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.10	*	Form of Restricted Stock Subject to Performance Criteria Stock Incentive Agreement pursuant to which restricted stock awards are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.11	*	Form of Restricted Stock Incentive Agreement with contracted employees pursuant to which restricted stock awards are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.12	*	Form of Restricted Stock Incentive Agreement with non-contracted employees pursuant to which restricted stock awards are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.13	*	Form of Stock Options Incentive Agreement with contracted employees pursuant to which stock option awards are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.14	*	Form of Stock Options Incentive Agreement with non-contracted employees pursuant to which stock option awards are granted under the Tyson Foods, Inc. 2000 Stock Incentive Plan effective November 17, 2017.
10.15	*	Tyson Foods Inc. Severance Pay Plan for Contracted Employees, as amended and restated effective December 1, 2017.

10.16	*	Second Amendment to the Company's Supplemental Executive Retirement and Life Insurance Premium Plan as Amended and Restated as of February 7, 2018.
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 December 30, 2017, 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.

* Indicates a management contract or compensatory plan or arrangement.

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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: February 8, 2018	/s/ Dennis Leatherby Dennis Leatherby Executive Vice President and Chief Financial Officer
Date: February 8, 2018	/s/ Curt T. Calaway Curt T. Calaway Senior Vice President, Controller and Chief Accounting Officer

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