

PILGRIMS PRIDE CORP
Form 10-Q
May 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2009

OR

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

For the transition period from _____ to _____

Commission File number 1-9273

PILGRIM'S PRIDE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-1285071
(I.R.S. Employer
Identification No.)

4845 US Hwy 271 N, Pittsburg, TX
(Address of principal executive offices)

75686-0093
(Zip code)

Registrant's telephone number, including area code: (903) 434-1000

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the issuer's common stock, as of May 7, 2009, was 74,055,733.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PILGRIM'S PRIDE CORPORATION
DEBTOR AND DEBTOR-IN-POSSESSION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 28, 2009	September 27, 2008
(In thousands)		
Assets:		
Cash and cash equivalents	\$ 44,956	\$ 61,553
Restricted cash and cash equivalents	6,664	—
Investment in available-for-sale securities	8,126	10,439
Trade accounts and other receivables, less allowance for doubtful accounts	311,471	144,156
Inventories	825,520	1,036,163
Income taxes receivable	22,753	21,656
Current deferred income taxes	67,767	54,312
Prepaid expenses and other current assets	49,595	105,071
Assets held for sale	52,057	17,370
Total current assets	1,388,909	1,450,720
Investment in available-for-sale securities	55,500	55,854
Other assets	85,233	51,768
Identified intangible assets, net	62,271	67,363
Property, plant and equipment, net	1,573,496	1,673,004
	\$ 3,165,409	\$ 3,298,709
Liabilities and stockholders' equity:		
Liabilities not subject to compromise:		
Accounts payable	264,456	378,887
Accrued expenses	319,595	448,823
Short-term notes payable	89,792	—
Current maturities of long-term debt	—	1,874,469
Other current liabilities	1,600	10,783
Total current liabilities	675,443	2,712,962
Long-term debt, less current maturities	38,950	67,514
Deferred income taxes	88,558	80,755
Other long-term liabilities	88,540	85,737
Total liabilities not subject to compromise	891,491	2,946,968
Liabilities subject to compromise	2,208,893	—

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Common stock	740	740
Additional paid-in capital	646,824	646,922
Accumulated deficit	(604,156)	(317,082)
Accumulated other comprehensive income	21,617	21,161
Total stockholders' equity	65,025	351,741
	\$ 3,165,409	\$ 3,298,709

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES
 DEBTOR AND DEBTOR-IN-POSSESSION
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
(In thousands, except share and per share data)				
Net sales	\$ 1,698,102	\$ 2,100,794	\$ 3,575,093	\$ 4,148,147
Cost of sales	1,600,378	2,124,173	3,560,247	4,066,423
Asset impairment	—	12,022	—	12,022
Gross profit (loss)	97,724	(35,401)	14,846	69,702
Selling, general and administrative expenses	77,879	102,559	170,793	206,992
Restructuring items, net	(435)	5,669	1,987	5,669
Total costs and expenses	1,677,822	2,244,423	3,733,027	4,291,106
Operating income (loss)	20,280	(143,629)	(157,934)	(142,959)
Other expense (income):				
Interest expense	46,444	33,772	86,012	63,712
Interest income	(2,824)	(446)	(3,355)	(954)
Miscellaneous, net	(2,252)	(1,161)	(3,676)	(4,024)
Total other expense, net	41,368	32,165	78,981	58,734
Loss from continuing operations before reorganization items and income taxes	(21,088)	(175,794)	(236,915)	(201,693)
Reorganization items	35,355	—	48,605	—
Loss from continuing operations before income taxes	(56,443)	(175,794)	(285,520)	(201,693)
Income tax expense (benefit)	2,347	(64,293)	2,625	(57,026)
Loss from continuing operations	(58,790)	(111,501)	(288,145)	(144,667)
Income (loss) from operation of discontinued business, net of tax	25	(850)	599	(13)
	—	903	—	903

Gain on sale of discontinued
business,
net of tax

Net loss	\$	(58,765)	\$	(111,448)	\$	(287,546)	\$	(143,777)
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Income (loss) per common
share—basic and diluted:

Continuing operations	\$	(0.79)	\$	(1.67)	\$	(3.89)	\$	(2.17)
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Discontinued business		—		—		0.01		0.01
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Net loss	\$	(0.79)	\$	(1.67)	\$	(3.88)	\$	(2.16)
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Dividends declared per common
share

	\$	—	\$	0.0225	\$	—	\$	0.0450
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Weighted average shares
outstanding

	74,055,733	66,555,733	74,055,733	66,555,733
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The accompanying notes are an integral part of these Consolidated Financial Statements.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES
 DEBTOR AND DEBTOR-IN-POSSESSION
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Six Months Ended	
	March 28, 2009	March 29, 2008
(In thousands)		
Cash flows from operating activities:		
Net loss	\$ (287,546)	\$ (143,777)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	120,671	116,296
Asset impairment	—	12,022
Gain on property disposals	(6,414)	(1,570)
Deferred income tax expense (benefit)	—	(56,082)
Changes in operating assets and liabilities:		
Accounts and other receivables	(161,703)	36,879
Inventories	238,313	(154,874)
Prepaid expenses and other current assets	22,373	(33,699)
Accounts payable and accrued expenses	(67,612)	(18,224)
Income taxes receivable, net	(1,924)	(14,723)
Other	(19,158)	11,977
Cash used in operating activities	(163,000)	(245,775)
Cash flows for investing activities:		
Acquisitions of property, plant and equipment	(48,359)	(70,216)
Purchases of investment securities	(12,116)	(18,466)
Proceeds from sale or maturity of investment securities	8,797	13,969
Change in restricted cash and cash equivalents	(6,664)	—
Proceeds from property disposals	8,396	18,717
Cash used in investing activities	(49,946)	(55,996)
Cash flows from financing activities:		
Proceeds from short-term notes payable	376,117	—
Payments on short-term notes payable	(286,325)	—
Proceeds from long-term debt	830,736	810,516
Payments on long-term debt	(719,599)	(498,932)
Change in outstanding cash management obligations	(3,562)	24,168
Cash dividends paid	—	(2,995)
Other	(123)	—
Cash provided by financing activities	197,244	332,757

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Effect of exchange rate changes on cash and cash equivalents	(895)	41
Increase (decrease) in cash and cash equivalents	(16,597)	31,027
Cash and cash equivalents, beginning of period	61,553	66,168
Cash and cash equivalents, end of period	\$ 44,956	\$ 97,195

The accompanying notes are an integral part of these Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A—CHAPTER 11 PROCEEDINGS

Chapter 11 Bankruptcy Filings

On December 1, 2008 (the "Petition Date"), Pilgrim's Pride Corporation and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division (the "Bankruptcy Court"). The cases are being jointly administered under Case No. 08-45664. The Company's operations in Mexico and certain operations in the United States ("US") were not included in the filing (the "Non-filing Subsidiaries") and will continue to operate outside the Chapter 11 process.

Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

The filing of the Chapter 11 petitions constituted an event of default under certain of our debt obligations, and those debt obligations became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result, the accompanying Consolidated Balance Sheet as of September 27, 2008 includes reclassifications of \$1,872.1 million to reflect as current certain long-term debt under the Company's credit facilities that, absent the stay, would have become automatically and immediately due and payable. Because of the bankruptcy petition, most of the Company's pre-petition long-term debt is included in liabilities subject to compromise at March 28, 2009. The Company classifies pre-petition liabilities subject to compromise as a long-term liability because management does not believe the Company will use existing current assets or create additional current liabilities to fund these obligations.

Chapter 11 Process

The Debtors are currently operating as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors-in-possession, we are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

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On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and certain of its subsidiaries consisting of PPC Transportation Company, PFS Distribution Company, PPC Marketing, Ltd., and Pilgrim's Pride Corporation of West Virginia, Inc. (collectively, the "US Subsidiaries"), and To-Ricos, Ltd. and To-Ricos Distribution, Ltd. (collectively with the US Subsidiaries, the "Subsidiaries") to enter into that certain Post-Petition Credit Agreement (the "Initial DIP Credit Agreement") among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent (the "DIP Agent"), and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into an Amended and Restated Post-Petition Credit Agreement dated December 31, 2008 (the "DIP Credit Agreement") among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto.

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rate for the three and six months ended March 28, 2009 was 11.25% and 11.47%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA"). Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Note G—Trade Accounts and Other Receivables.

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Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of March 28, 2009, the applicable borrowing base was \$335.8 million and the amount available for borrowings under the DIP Credit Agreement was \$246.0 million. As of May 6, 2009, the applicable borrowing base was \$365.7 million, the amount available for borrowings under the DIP Credit Agreement was \$322.7 million and outstanding borrowings under the DIP Credit Agreement totaled \$43.0 million.

The principal amount of outstanding loans under the DIP Credit Agreement, together with accrued and unpaid interest thereon, are payable in full at maturity on December 1, 2009, subject to extension for an additional six months with the approval of all lenders thereunder. All obligations under the DIP Credit Agreement are unconditionally guaranteed by the Subsidiaries and are secured by a first priority priming lien on substantially all of the assets of the Company and the Subsidiaries, subject to specified permitted liens in the DIP Credit Agreement.

The DIP Credit Agreement allows the Company to provide advances to the Non-filing Subsidiaries of up to approximately \$25 million at any time outstanding. Management believes that all of the Non-filing Subsidiaries, including the Company's Mexican subsidiaries, will be able to operate within this limitation.

For additional information on the DIP Credit Agreement, see Note L—Short-Term Notes Payable and Long-Term Debt.

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The Bankruptcy Court has approved payment of certain of the Debtors' pre-petition obligations, including, among other things, employee wages, salaries and benefits, and the Bankruptcy Court has approved the Company's payment of vendors and other providers in the ordinary course for goods and services ordered pre-petition but received from and after the Petition Date and other business-related payments necessary to maintain the operation of our businesses. The Debtors have retained, subject to Bankruptcy Court approval, legal and financial professionals to advise the Debtors on the bankruptcy proceedings and certain other "ordinary course" professionals. From time to time, the Debtors may seek Bankruptcy Court approval for the retention of additional professionals.

Shortly after the Petition Date, the Debtors began notifying all known current or potential creditors of the Chapter 11 filing. Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

As required by the Bankruptcy Code, the United States Trustee for the Northern District of Texas (the "US Trustee") appointed an official committee of unsecured creditors (the "Creditors' Committee"). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtors. In addition, on April 30, 2009, the Bankruptcy Court ordered the US Trustee to appoint an official committee of equity holders (the "Equity Committee") to represent the interests of Pilgrim's Pride's equity holders in the Debtors' bankruptcy cases. There can be no assurance that the Creditors' Committee or the Equity Committee will support the Debtors' positions on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization, once proposed. Disagreements between the Debtors and the Creditors' Committee or the Equity Committee could protract the Chapter 11 proceedings, negatively impact the Debtors' ability to operate and delay the Debtors' emergence from the Chapter 11 proceedings.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property and equipment, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this report, including where applicable our express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights we have under Section 365 of the Bankruptcy Code.

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In order to successfully exit Chapter 11, the Debtors will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve the Debtors' pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to exit from bankruptcy.

On March 26, 2009, the Bankruptcy Court issued an order extending the period during which the Debtors have the exclusive right to file a plan of reorganization. Pursuant to this order, the Debtors have the exclusive right, through September 30, 2009, to file a plan for reorganization, and if we file a plan by that date, we will have until November 30, 2009 to obtain the necessary acceptances of our plan. We may file one or more motions to request further extensions of these time periods. If the Debtors' exclusivity period lapses, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 proceedings. There can be no assurance at this time that a plan of reorganization will be confirmed by the Bankruptcy Court or that any such plan will be implemented successfully.

We have incurred and will continue to incur significant costs associated with our reorganization. The amount of these costs, which are being expensed as incurred commencing in November 2008, are expected to significantly affect our results of operations.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must generally be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, the value of our liabilities and securities, including our common stock, is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of the liabilities and/or securities of the Debtors. At this time there is no assurance we will be able to restructure as a going concern or successfully propose or implement a plan of reorganization.

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On February 11, 2009, the Bankruptcy Court issued an order granting the Company's motion to impose certain restrictions on trading in shares of the Company's common stock in order to preserve valuable tax attributes. This order established notification procedures and certain restrictions on transfers of common stock or options to purchase the common stock of the Company. The trading restrictions apply retroactively to January 17, 2009, the date the motion was filed, to investors beneficially owning at least 4.75% of the outstanding shares of common stock of Pilgrim's Pride Corporation. For these purposes, beneficial ownership of stock is determined in accordance with special US tax rules that, among other things, apply constructive ownership concepts and treat holders acting together as a single holder. In addition, in the future, the Company may request that the Bankruptcy Court impose certain trading restrictions on certain debt of, and claims against, the Company.

Going Concern Matters

The accompanying Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern. However, there is substantial doubt about the Company's ability to continue as a going concern based on the factors previously discussed. The Consolidated Financial Statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is dependent upon, among other things, the ability of the Company to return to historic levels of profitability and, in the near term, restructure its obligations in a manner that allows it to obtain confirmation of a plan of reorganization by the Bankruptcy Court.

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. In April 2009, the Company reduced headcount by approximately 115 non-production employees and announced the upcoming closure of a processing complex in Dalton, Georgia that will reduce headcount by approximately 280 production employees. During the second quarter of 2009, the Company (1) announced the upcoming closures of processing complexes in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana and Franconia, Pennsylvania, (2) closed a distribution center in Houston, Texas and (3) reduced or consolidated production at various facilities throughout the US. These actions will ultimately result in a headcount reduction of approximately 3,560 production employees. During the first quarter of 2009, the Company reduced headcount by approximately 265 non-production employees and announced an upcoming reduction in production at its processing complex in Live Oak, Florida that will result in a headcount reduction of approximately 220 production employees. During 2008, the Company closed processing complexes in Bossier City, Louisiana and Clinton, Arkansas and reduced production at its operating complex in El Dorado, Arkansas. These actions resulted in a headcount reduction of approximately 2,300 production employees.

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On November 7, 2008, the Board of Directors appointed a Chief Restructuring Officer (“CRO”) for the Company. The appointment of a CRO was a requirement included in the waivers received from the Company’s lenders on October 27, 2008. The CRO assists the Company with cost reduction initiatives, restructuring plans development and long-term liquidity improvement. The CRO reports to the Board of Directors of the Company.

In order to emerge from bankruptcy, the Company will need to obtain alternative financing to replace the DIP Credit Agreement and to satisfy the secured claims of its pre-bankruptcy creditors.

Condensed Combined Financial Information of Debtors

The following unaudited condensed combined financial information is presented for the Debtors as of March 28, 2009 or for the six months then ended (in thousands):

Balance Sheet Information:

Current assets	\$ 1,447,889
Identified intangible assets	62,271
Investment in subsidiaries	170,856
Property, plant and equipment, net	1,444,672
Other assets	89,165
Total assets	\$ 3,214,863
Current liabilities	\$ 564,211
Long-term liabilities	340,250
Liabilities not subject to compromise	904,461
Liabilities subject to compromise	2,208,893
Total liabilities	3,113,354
Stockholders’ equity	101,509
Total liabilities and stockholders’ equity	\$ 3,214,863

Statement of Operations Information:

Net sales	\$ 3,249,502
Gross loss	(6,998)
Operating loss	(165,356)
Reorganization items	48,605
Income from equity affiliates	713
Net loss	(287,546)

Statement of Cash Flows Information:

Cash used in operating activities	\$ (97,613)
Cash used in investing activities	(43,518)
Cash provided by financing activities	122,857

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NOTE B—BASIS OF PRESENTATION

Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Pilgrim's Pride Corporation (referred to herein as "Pilgrim's," "the Company," "we," "us," "our" or similar terms) have been prepared in accordance with accounting principles generally accepted in the US for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the US Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the US for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments unless otherwise disclosed) considered necessary for a fair presentation have been included. Operating results for the three and six months ended March 28, 2009 are not necessarily indicative of the results that may be expected for the year ending September 26, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in Pilgrim's Annual Report on Form 10-K for the year ended September 27, 2008.

The Company operates on the basis of a 52/53-week fiscal year that ends on the Saturday closest to September 30. The reader should assume any reference we make to a particular year (for example, 2009) in this report applies to our fiscal year and not the calendar year.

As a result of sustained losses and our Chapter 11 proceedings, the realization of assets and satisfaction of liabilities, without substantial adjustments and/or changes in ownership, are subject to uncertainty. Given this uncertainty, there is substantial doubt about our ability to continue as a going concern.

The accompanying Consolidated Financial Statements do not purport to reflect or provide for the consequences of our Chapter 11 proceedings. In particular, the financial statements do not purport to show (i) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (ii) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (iii) as to shareowners' equity accounts, the effect of any changes that may be made in our capitalization; or (iv) as to operations, the effect of any changes that may be made to our business.

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In accordance with accounting principles generally accepted in the United States (“GAAP”), we have applied American Institute of Certified Public Accountants’ Statement of Position (“SOP”) 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, in preparing the Consolidated Financial Statements. SOP 90-7 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings are recorded in reorganization items on the accompanying Consolidated Statements of Operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the Consolidated Balance Sheet at March 28, 2009 in Liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts. For information on the bankruptcy reorganization process, see Note A—Chapter 11 Proceedings.

While operating as debtors-in-possession under Chapter 11 of the Bankruptcy Code, the Debtors may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or otherwise as permitted in the ordinary course of business, in amounts other than those reflected in the Consolidated Financial Statements. Moreover, a plan of reorganization could materially change the amounts and classifications in the historical Consolidated Financial Statements.

The consolidated financial statements include the accounts of Pilgrim’s Pride Corporation and its majority owned subsidiaries. We eliminate all significant affiliate accounts and transactions upon consolidation.

The Company re-measures the financial statements of its Mexican subsidiaries as if the US dollar were the functional currency. Accordingly, we translate assets and liabilities, other than non-monetary assets, of the Mexican subsidiaries at current exchange rates. We translate non-monetary assets using the historical exchange rate in effect on the date of each asset’s acquisition. We translate income and expenses at average exchange rates in effect during the period. Currency exchange gains or losses are included in the line item Other Expenses (Income) in the Consolidated Statements of Operations.

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Quality of Investments

The Company and certain retirement plans that it sponsors invest in a variety of financial instruments. In response to the continued turbulence in global financial markets, we have analyzed our portfolios of investments and, to the best of our knowledge, none of our investments, including money market funds units, commercial paper and municipal securities, have been downgraded because of this turbulence, and neither we nor any fund in which we participate hold significant amounts of structured investment vehicles, auction rate securities, collateralized debt obligations, credit derivatives, hedge funds investments, fund of funds investments or perpetual preferred securities. Certain postretirement funds in which the Company participates hold significant amounts of mortgage-backed securities. However, none of the mortgages collateralizing these securities are considered subprime.

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (“FSP”) FAS157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which excluded SFAS No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. In February 2008, the FASB also issued FSP FAS157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008.

On September 28, 2008, the Company adopted the portion of SFAS No. 157 that was not delayed, and since the Company’s existing fair value measurements are consistent with the guidance of SFAS No. 157, the partial adoption of SFAS No. 157 did not have a material impact on the Company’s consolidated financial statements. The adoption of the deferred portion of SFAS No. 157 on September 27, 2009 is not expected to have a material impact on the Company’s consolidated financial statements.

In October 2008, the FASB issued FSP FAS157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarified the application of SFAS No. 157 when the market for a financial asset was not active. FSP FAS157-3 was effective upon issuance, including reporting for prior periods for which financial statements had not been issued. The adoption of FSP FAS157-3 for the Company’s interim reporting period ending on December 27, 2008 did not have a material impact on the Company’s consolidated financial statements.

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See Note F—Fair Value Measurements for expanded disclosures about fair value measurements.

Accounting Pronouncements Issued But Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This Statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects by establishing principles and requirements for how the acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company must apply prospectively SFAS No. 141(R) to business combinations for which the acquisition date occurs during or subsequent to the first quarter of 2010. The impact that adoption of SFAS No. 141(R) will have on the Company's financial condition, results of operations and cash flows is dependent upon many factors. Such factors would include, among others, the fair values of the assets acquired and the liabilities assumed in any applicable business combination, the amount of any costs the Company would incur to effect any applicable business combination, and the amount of any restructuring costs the Company expected but was not obligated to incur as the result of any applicable business combination. Thus, we cannot accurately predict the effect SFAS No. 141(R) will have on future acquisitions at this time.

In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This Statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for how that reporting entity (i) identifies, labels and presents in its consolidated statement of financial position the ownership interests in subsidiaries held by parties other than itself, (ii) identifies and presents on the face of its consolidated statement of operations the amount of consolidated net income attributable to itself and to the noncontrolling interest, (iii) accounts for changes in its ownership interest while it retains a controlling financial interest in a subsidiary, (iv) initially measures any retained noncontrolling equity investment in a subsidiary that is deconsolidated, and (v) discloses other information about its interests and the interests of the noncontrolling owners. The Company must apply prospectively the accounting requirements of SFAS No. 160 in the first quarter of 2010. The Company should also apply retroactively the presentation and disclosure requirements of the Statement for all periods presented at that time. The Company does not expect the adoption of SFAS No. 160 will have a material impact on its financial position, financial performance or cash flows.

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In April 2008, the FASB issued FSP FAS142-3, Determination of the Useful Life of Intangible Assets. FSP FAS142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. FSP FAS142-3 must be applied prospectively to intangible assets acquired after the effective date. The Company will apply the guidance of this FSP to intangible assets acquired after September 26, 2009.

In December 2008, the FASB issued FSP FAS132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. FSP FAS132(R)-1 amends SFAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The Company will apply the guidance of this FSP to its postretirement benefit plan assets effective September 27, 2009.

In April 2009, the FASB issued three separate Staff Positions in response to the current economic downturn in the United States. FSP FAS157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS115-2 and FAS124-2, Recognition and Presentation of Other-Than-Temporary Impairments, amends the other-than-temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS107-1 and APB28-1, Interim Disclosures about Fair Value of Financial Instruments, amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The Company will apply the guidance of these Staff Positions in its interim financial reporting period ending on June 27, 2009. The Company does not expect the adoption of these Staff Positions will have a material impact on its financial position, financial performance or cash flows.

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NOTE C—REORGANIZATION ITEMS

SOP 90-7 requires separate disclosure of reorganization items such as realized gains and losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing the Debtors under Chapter 11. The Debtors' reorganization items for the three and six months ended March 28, 2009 consist of the following:

	Three Months Ended March 28, 2009	Six Months Ended March 28, 2009
	(In thousands)	
Professional fees directly related to reorganization (a)	\$ 14,716	\$ 20,120
DIP Credit Agreement related expenses	4,500	11,375
Other (b)	16,139	17,110
Total reorganization items	\$ 35,355	\$ 48,605

(a) Professional fees directly related to the reorganization include post-petition fees associated with advisors to the Debtors, the statutory committee of unsecured creditors and certain secured creditors. Professional fees are estimated by the Debtors and will be reconciled to actual invoices when received.

(b) Other expenses includes (1) severance, live flock impairment and inventory disposal costs related to the upcoming closures of facilities in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana and Franconia, Pennsylvania, (2) severance costs related to the closed distribution center in Houston, Texas, the Operations management reduction-in-force action in February 2009 and reduced or consolidated production at various facilities throughout the US and (3) fees associated with the termination of the RPA on December 3, 2008.

Net cash paid for reorganization items for the three and six months ended March 28, 2009 totaled \$11.7 million and \$19.3 million, respectively. For the three months ended March 28, 2009, this represented payment of professional fees directly related to reorganization totaling \$6.7 million, DIP Credit Agreement related expenses totaling \$4.5 million and severance payments totaling \$0.5 million. For the six months ended March 28, 2009, this represented payment of DIP Credit Agreement related expenses totaling \$11.4 million, professional fees directly related to the reorganization totaling \$6.7 million, fees associated with the termination of the RPA totaling \$0.7 million and severance payments of \$0.5 million.

In April 2009, the Company reduced headcount by approximately 115 non-production employees and announced the upcoming closure of a processing complex in Dalton, Georgia that will reduce headcount by approximately 280 production employees.

For additional information on costs related to (1) the upcoming closures of our facilities in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana and Franconia, Pennsylvania and (2) severance costs related to the closed distribution center in Houston, Texas, the Operations management reduction-in-force action in February 2009 and reduced or consolidated production at various facilities throughout the US, see Note E—Restructuring Activities.

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NOTE D—DISCONTINUED BUSINESS

The Company sold certain assets of its turkey business for \$18.6 million and recorded a gain of \$1.5 million (\$0.9 million, net of tax) during the second quarter of 2008. This business was composed of substantially our entire former turkey segment. The results of this business are included in the line item Income from operation of discontinued business, net of tax in the Consolidated Statements of Operations for all periods presented.

For a period of time, we continued to generate operating results and cash flows associated with our discontinued turkey business. These activities were transitional in nature. We entered into a short-term co-pack agreement with the acquirer of the discontinued turkey business under which they processed turkeys for sale to our customers through the end of 2008. We had no remaining turkey inventories as of March 28, 2009 and do not expect to recognize additional operating results related to our discontinued turkey business. For the period of time until we have collected funds on the sale of these turkeys and settled liabilities, we will continue to report cash flows associated with our discontinued turkey business, although at a substantially reduced level.

Neither our continued involvement in the distribution and sale of these turkeys or the co-pack agreement conferred upon us the ability to influence the operating and/or financial policies of the turkey business under its new ownership.

No debt was assumed by the acquirer of the discontinued turkey business or required to be repaid as a result of the disposal transaction. We elected to allocate to the discontinued turkey operation other consolidated interest that was not directly attributable to or related to other operations of the Company based on the ratio of net assets to be sold or discontinued to the sum of the total net assets of the Company plus consolidated debt. Interest allocated to the discontinued business in the three and six months ended March 29, 2008 totaled \$0.2 million and \$0.6 million, respectively. We did not allocate interest to the discontinued business in the three and six months ended March 28, 2009.

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The following amounts related to our turkey business were segregated from continuing operations and included in the line item Income from operation of discontinued business, net of tax in the Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
	(In thousands)			
Net sales (sales deductions)	\$ —	\$ 10,154	\$ 25,788	\$ 56,012
Income (loss) from operation of discontinued business before income taxes	\$ 40	\$ (1,366)	\$ 962	\$ (22)
Income tax expense (benefit)	(15)	(516)	(363)	9
Income (loss) from operation of discontinued business, net of tax	\$ 25	\$ (850)	\$ 599	\$ (13)
Gain on sale of discontinued business before income taxes	\$ —	\$ 1,450	\$ —	\$ 1,450
Income tax expense	—	547	—	547
Gain on sale of discontinued business, net of tax	\$ —	\$ 903	\$ —	\$ 903

The following assets and liabilities related to our turkey business have been segregated and included in Prepaid expenses and other current assets and Other current liabilities, as appropriate, in the consolidated balance sheets as of March 28, 2009 and September 27, 2008.

	March 28, 2009	September 27, 2008
	(In thousands)	
Trade accounts and other receivables, less allowance for doubtful accounts	\$ 204	\$ 5,881
Inventories	—	27,638
Current assets of discontinued business	\$ 204	\$ 33,519
Accounts payable	\$ 49	\$ 7,737
Accrued expenses	1,551	3,046
Current liabilities of discontinued business	\$ 1,600	