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 a Post-Petition Credit Agreement (the "Initial DIP Credit Agreement") among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as 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 31, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement.

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 quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's 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 Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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 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 December 27, 2008, the applicable borrowing base was $323.6 million and the amount available for borrowings under the DIP Credit Agreement was $222.4 million. As of February 5, 2009, the applicable borrowing base was $309.4 million and the amount available for borrowings under the DIP Credit Agreement was $195.5 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 Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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 order 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 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. There can be no assurance that the Creditors' 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 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.

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.

The Debtors have the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of our plan. We will likely file one or more motions to request extensions of these time periods. If the Debtors' exclusivity period lapsed, 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.

The Company has requested that the Bankruptcy Court impose certain restrictions on trading in shares of the Company's common stock in order to preserve valuable tax attributes. The hearing on the motion is set for February 10, 2009. The Company requested that 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 will be 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 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. During the first quarter of 2009, the Company reduced headcount by approximately 265 non–production employees. The Company also announced that it would reduce production capacity at a certain production complex in the second quarter of 2009 by eliminating a work shift; the action will result in a headcount reduction of approximately 505 production employees. During 2008, the Company reduced production capacity by closing two production complexes and consolidating operations at a third production complex into its other facilities. These actions resulted in a headcount reduction of approximately 2,300 production employees.

During 2008, the Company reduced production capacity by closing two production complexes and consolidating operations at a third production complex into its other facilities. These actions resulted in a headcount reduction of approximately 2,300 production employees.

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 will assist 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.

Business Segments

We operate in two reportable business segments as (i) a producer and seller of chicken products and (ii) a seller of other products. The following table presents certain information regarding our segments.

	Three Months Ended	
	December 27, 2008	December 29, 2007
	(In thousands)	
Net sales to customers:		
Chicken:		
United States	$ 1,586,965	$ 1,728,142
Mexico	136,051	120,998
Total chicken	1,723,016	1,849,140
Other products:		
United States	144,784	190,389
Mexico	9,191	7,824
Total other products	153,975	198,213
Net sales to customers	$ 1,876,991	$ 2,047,353
Operating income (loss):		
Chicken:		
United States	$ (181,870)	$ (19,094)
Mexico	(7,217)	(4,092)
Total chicken	(189,087)	(23,186)
Other products:		
United States	8,965	22,771
Mexico	1,881	1,085
Total other products	10,846	23,856
Operating income (loss)	$ (178,241)	$ 670
Depreciation and amortization(a)(b)(c):		
Chicken:		
United States	$ 53,609	$ 50,203
Mexico	2,437	2,564
Total chicken	56,046	52,767
Other products:		
United States	4,054	2,715
Mexico	58	62
Total other products	4,112	2,777
Depreciation and amortization	$ 60,158	$ 55,544

(a) Includes amortization of capitalized financing costs of $1.5 million and $1.0 million for the quarters ended December 27, 2008 and December 29, 2007, respectively.

(b) Includes amortization of intangible assets of $2.5 million and $2.6 million for the quarters ended December 27, 2008 and December 29, 2007, respectively.

(c) Excludes depreciation costs incurred by our discontinued turkey business of $0.4 million during the quarter ended December 29, 2007.

The following table presents certain items as a percent of net sales for the periods indicated.

	Three Months Ended	
	December 27, 2008	December 29, 2007
Net sales	100.0 %	100.0 %
Cost of sales	104.4 %	94.9 %
Gross profit	(4.4) %	5.1 %
Selling, general and administrative ("SG&A") expenses	4.9 %	5.1 %
Restructuring charges, net	0.2 %	— %
Operating income (loss)	(9.5) %	— %
Interest expense	2.1 %	1.5 %
Interest income	— %	— %
Reorganization items	0.7 %	— %
Loss from continuing operations before income taxes	(12.2) %	(1.3) %
Loss from continuing operations	(12.2) %	(1.6) %
Net loss	(12.2) %	(1.6) %

All percent of net sales ratios reported above are calculated from the face of the Consolidated Statements of Operations included elsewhere herein.

Results of Operations

First Quarter 2009 Compared to First Quarter 2008

Net sales. Net sales for the first quarter of 2009 decreased $170.4 million, or 8.3%, over the first quarter of 2008. The following table provides net sales information.

Source	First Quarter 2009	Change from First Quarter 2008 Amount	Percent	
	(In millions, except percent data)			
Chicken:				
United States	$ 1,587.0	$ (141.2)	(8.2)%	(a)
Mexico	136.0	15.0	12.4%	(b)
Total chicken	1,723.0	(126.2)	(6.8)%	
Other products:				
United States	144.8	(45.6)	(23.9)%	(c)
Mexico	9.2	1.4	17.5%	(d)
Total other products	154.0	(44.2)	(22.3)%	
Total net sales	$ 1,877.0	$ (170.4)	(8.3)%	

(a) US chicken sales generated in the first quarter of 2009 decreased 8.2% from US chicken sales generated in the first quarter of 2008. Sales volume decreased 10.5% primarily because of previously announced production cutbacks. Net revenue per pound sold increased 2.7% from the prior year primarily because of increased sales prices on a majority of product lines.

(b) Mexico chicken sales generated in the first quarter of 2009 increased 12.4% from Mexico chicken sales generated in the first quarter of 2008. Sales volume increased 17.7% from the prior year and net revenue per pound sold decreased 4.5% from the prior year primarily because of increased sales of live chicken.

(c) US sales of other products generated in the first quarter of 2009 decreased 23.9% from US sales of other products generated in the first quarter of 2008 mainly as the result of reduced sales volumes on commercial eggs and protein conversion products partially offset by increased sales prices on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered by one of Company's protein conversion facilities in late 2008. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed–stock for the chemical industry.

(d) Mexico sales of other products generated in the first quarter of 2009 increased 17.5% from Mexico sales of other products generated in the first quarter of 2008 principally because of higher sales volumes.

Gross profit (loss). Gross profit (loss) results decreased by $188.5 million, or 179.3%, from gross profit of $105.1 million generated in the first quarter of 2008 to gross loss of $83.4 million incurred in the first quarter of 2009. The following table provides gross profit (loss) information.

Components	First Quarter 2009	Change from First Quarter 2008 Amount	Change from First Quarter 2008 Percent	Percent of Net Sales First Quarter 2009	Percent of Net Sales First Quarter 2008
	(In millions, except percent data)				
Net sales	$ 1,877.0	$ (170.4)	(8.3)%	100.0 %	100.0%
Cost of sales	1,960.4	18.1	0.9 %	104.4 %	94.9% (a)
Gross profit (loss)	$ (83.4)	$ (188.5)	(179.3)%	(4.4)%	5.1% (b)

(a) Cost of sales incurred by the US operations during the first quarter of 2009 decreased $9.6 million from cost of sales incurred by the US operations during the first quarter of 2008. This decrease occurred because of production cutbacks and decreased feed ingredient purchases during the quarter offset by an aggregate net loss of $21.4 million which the Company recognized during the first quarter of 2009 on derivative financial instruments executed in previous quarters to manage its exposure to changes in corn and soybean meal prices. The Company recognized an aggregate net gain of $0.1 million during the first quarter of 2008 on derivative financial instruments. Cost of sales incurred by the Mexico operations during the first quarter of 2009 increased $27.7 million from cost of sales incurred by the Mexico operations during the first quarter of 2008 primarily because of increased net sales and increased feed ingredients costs.

(b) Gross profit as a percent of net sales generated in the first quarter of 2009 decreased 9.5 percentage points from gross profit as a percent of sales generated in the first quarter of 2008 primarily because of increased feed ingredients costs and the net loss recognized on derivative financial instruments during the current quarter.

Operating income (loss). Operating income (loss) results decreased by $178.9 million, or 26703.1%, from operating income of $0.7 million generated for the first quarter of 2008 to operating loss of $178.2 million incurred in the first quarter of 2009. The following tables provide operating income (loss) information.

Source	First Quarter 2009	Change from First Quarter 2008 Amount	Change from First Quarter 2008 Percent
	(In millions, except percent data)		
Chicken:			
United States	$ (181.9))	$ (162.8))	(852.5))%
Mexico	(7.2))	(3.1))	(76.4))%
Total chicken	(189.1))	(165.9))	(715.5))%
Other products:			
United States	9.0	(13.8))	(60.6))%
Mexico	1.9	0.8	73.4%
Total other products	10.9	(13.0))	(54.5))%
Total operating loss	$ (178.2))	$ (178.9))	(26703.1))%

Components	First Quarter 2009	Change from First Quarter 2008 Amount	Change from First Quarter 2008 Percent	Percent of Net Sales First Quarter 2009	Percent of Net Sales First Quarter 2008
	(In millions, except percent data)				
Gross profit	$ (83.4))	$ (188.5))	(179.3)) %	(4.4)) %	5.1%
SG&A expenses	92.4	(12.0))	(11.5)) %	4.9 %	5.1%(a)
Restructuring charges, net	2.4	2.4	NA	0.2 %	—%(b)
Operating income (loss)	$ (178.2))	$ (178.9))	(26703.1)) %	(9.5)) %	—%(c)

(a) SG&A expenses incurred by the US operations during the first quarter of 2009 decreased 11.5% from SG&A expenses incurred by the US operations during the first quarter of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.

(b) The Company incurred charges totaling $3.7 million, composed of severance and facility shutdown costs, related to restructuring actions taken in 2009. These charges were partially offset by a $1.3 million adjustment that reduced accrued severance and employee retention costs. This adjustment resulted from a change in the restructuring program.

(c) Operating loss as a percent of net sales generated in the first quarter of 2009 decreased 9.5 percentage points from operating income as a percent of sales generated in the first quarter of 2008 primarily because of deterioration in gross profit performance and charges related to 2009 restructuring actions.

Interest expense. Interest expense increased 32.2% to $39.6 million in the first quarter of 2009 from $29.9 million in the first quarter of 2008 primarily because of increased borrowings. As a percentage of net sales, interest expense in the first quarter of 2009 increased to 2.1% from 1.5% in the first quarter of 2008.

Miscellaneous, net. Consolidated miscellaneous income decreased from $2.9 million in the first quarter of 2008 to $1.5 million in the first quarter of 2009 primarily because of unfavorable currency exchange results due to a decrease in the average exchange rate between the Mexican peso and the US dollar during those two periods.

Reorganization items. The Company incurred reorganization costs of $13.3 million in the first quarter of 2009. These costs included financing fees associated with the DIP Credit Agreement, professional fees charged for reorganization services and fees related to the termination of the RPA.

Income tax expense. The Company's effective tax rate for the three months ended December 27, 2008 was 0% compared to 28% for the three months ended December 29, 2007. The effective tax rate decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the U.S. and Mexico. The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will be recovered, the valuation allowance will be reduced.

Income from operation of discontinued business. The Company generated income from the operation of its discontinued turkey business of $0.9 million ($0.9 million, net of tax) during the first quarter of 2009 compared to income from the operation of its discontinued turkey business of $1.3 million ($0.8 million, net of tax) during the first quarter of 2008. Net sales generated by the discontinued turkey business in the quarters ended December 27, 2008 and December 29, 2007 were $26.5 million and $45.9 million, respectively.

Liquidity and Capital Resources

The following table presents our available sources of liquidity as of December 27, 2008.

Source of Liquidity	Facility Amount	Amount Outstanding	Available	
		(In millions)		
Cash and cash equivalents	$ —	$ —	$ 39.3	
Investments in available–for–sale securities	—	—	7.5	
Debt facilities:				
DIP Credit Agreement expiring 2009	450.0	101.2	222.4	(a)(b)
Revolving credit facility expiring 2011	41.5	41.5	—	

(a) 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 at December 27, 2008 was $323.6 million.

(b) At February 5, 2009, total funds available for borrowing under the DIP Credit Agreement were $195.5 million.

At December 27, 2008, the Company had $238.8 million outstanding under its revolving credit facility expiring in 2013 and $506.7 million outstanding under its revolver/term credit agreement expiring in 2016. At that time, the Company was party to outstanding standby letters of credit totaling $72.0 million. The filing of the Chapter 11 petitions constituted an event of default under, among other of our debt obligations, the revolving credit facility expiring in 2013 and the revolver/term credit agreement expiring in 2016. Outstanding obligations under these facilities 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. Funds are no longer available for borrowing under these two facilities.

Debt Obligations

As previously discussed, on December 1, 2008, the Debtors filed voluntary petitions in the Bankruptcy Court seeking reorganization relief under the Bankruptcy Code. 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 long–term debt is included in liabilities subject to compromise at December 27, 2008. The Company classifies 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.

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the Subsidiaries to enter into the Initial DIP Credit Agreement with 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 31, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into 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 quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loan 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 Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Off–Balance Sheet Arrangements."

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 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 December 27, 2008, the applicable borrowing base was $323.6 million and the amount available for borrowings under the DIP Credit Agreement was $222.4 million. As of February 5, 2009, the applicable borrowing base was $309.4 million and the amount available for borrowings under the DIP Credit Agreement was $195.5 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.

Under the terms of the DIP Credit Agreement and applicable bankruptcy law, the Company may not pay dividends on the common stock while it is in bankruptcy. Any payment of future dividends and the amounts thereof will depend on our emergence from bankruptcy, our earnings, our financial requirements and other factors deemed relevant by our Board of Directors at the time.

During the first quarter of 2009, the Company borrowed $616.7 million and repaid $525.5 million under the secured revolver/term credit agreement expiring in 2016, borrowed $211.5 million and repaid $154.7 million under the secured revolving credit facility expiring in 2013, borrowed $234.7 million and repaid $133.5 million under the DIP Credit Agreement and repaid $14.4 million under other facilities.

On November 30, 2008, certain non–Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the "Secured Debt") as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the "Unsecured Debt"). The aggregate principal amount owed under these credit agreements and notes was approximately $2,022.2 million as of December 27, 2008. As a result of such event of default, all obligations under these agreements 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 of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling $1.1 million in December 2008.

Off-Balance Sheet Arrangements

In June 1999, the Camp County Industrial Development Corporation issued $25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. The revenue bonds become due in 2029. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds continue to be held by the trustee of the bonds until we draw on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee has the right to accelerate all obligations under the bonds such that they become 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. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We are currently working with the trustee to accomplish the repayment and cancellation of the bonds and have recorded a receivable from the trustee on our Consolidated Balance Sheet at December 27, 2008.

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The loss recognized on the sold receivables during the quarter ended December 27, 2008 was not material. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as, based upon the likelihood of payment, the fair value of such indemnities is immaterial.

Historical Flow of Funds

Cash used in operating activities was $112.4 million and $35.2 million for the quarters ended December 27, 2008 and December 29, 2007, respectively. The increase in cash used in operating activities was primarily the result of the significantly larger net loss incurred in the first quarter of 2009 as compared to the net loss incurred in the first quarter of 2008; this was partially offset by favorable changes in operating assets and liabilities.

At December 27, 2008, our working capital position increased $2,020.0 million to a surplus of $757.8 million and our current ratio increased to 2.24 to 1 compared with a deficit of $1,262.2 million and a current ratio of 0.53 to 1 at September 27, 2008 primarily because of a significant decrease in current maturities of long–term debt and the other working capital changes discussed below. Current maturities of long–term debt decreased from $1,874.5 million at September 27, 2008 to $0 at December 27, 2008 as most long–term debt was classified as liabilities subject to compromise because of the bankruptcy proceedings.

Trade accounts and other receivables increased $211.1 million, or 146.4%, to $355.3 million at December 27, 2008 from $144.2 million at September 27, 2008. This increase resulted primarily from our repurchase of receivables originally sold under the RPA. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

Inventories decreased $240.1 million, or 23.2%, to $796.1 million at December 27, 2008 from $1,036.2 million at September 27, 2008. This decrease was the result of several actions, two of which are discussed here, taken by the Company to improve its financial condition. First, the Company's previously announced production cutbacks resulted in reduced live flock inventories, feed inventories, and packaging and other supplies inventories. Second, the Company made a concerted effort early in the quarter to sell down its existing prepared foods inventories in order to generate cash.

Prepaid expenses and other current assets decreased $16.6 million, or 23.2%, to $55.0 million at December 27, 2008 from $71.6 million at September 27, 2008. This decrease occurred primarily because the Company suspended the use of derivative financial instruments in response to its current financial condition. We settled all outstanding derivative financial instruments in October 2008.

Accounts payable decreased $165.9 million, or 43.8%, to $213.0 million at December 27, 2008 from $378.9 million at September 27, 2008. This decrease occurred for various reasons, including the impact of the Company's previously announced production cutbacks and because certain vendors with which the Company previously maintained open trade accounts required prepayments for all future deliveries after learning about the Company's current financial condition. At December 27, 2008, we classified accounts payable totaling $70.1 million as liabilities subject to compromise because of the bankruptcy.

Accrued expenses decreased $152.2 million, or 33.9%, to $296.6 million at December 27, 2008 from $448.8 million at September 27, 2008. This decrease resulted from reductions in the accrued balances for marketing, restructuring, severance and utilities costs. At December 27, 2008, we classified accrued expenses totaling $134.2 million as liabilities subject to compromise because of the bankruptcy.

Cash used in investing activities was $36.0 million and $43.1 million for the first quarters of 2009 and 2008, respectively. Capital expenditures of $29.0 million and $42.7 million for the three months ended December 27, 2008 and December 29, 2007, respectively, were primarily incurred for the routine replacement of equipment and to improve efficiencies, expand capacity, and reduce costs. Capital expenditures for 2009 will be restricted to routine replacement of equipment in our current operations in addition to important projects we began in 2008 and will not exceed the $150 million amount allowed under the DIP Credit Agreement. Cash was used to purchase investment securities totaling $6.0 million and $3.3 million in the first quarters of 2009 and 2008, respectively. Cash proceeds in the first quarters of 2009 and 2008 from the sale or maturity of investment securities were $4.6 million and $2.8 million, respectively. Restricted cash increased $6.7 million to collateralize a standby letter of credit guaranteeing certain self insurance obligations. Cash proceeds from property disposals for the three months ended December 27, 2008 and December 29, 2007 were $0.7 million and $0.1 million, respectively.

Cash provided by financing activities was $119.5 million and $106.8 million for the three months ended December 27, 2008 and December 29, 2007, respectively. Cash proceeds in the first quarter of 2009 from short-term notes payable were $234.7 million. Cash was used to repay short-term notes payable totaling $133.5 million in the first quarter of 2009. Cash proceeds in the first quarters of 2009 and 2008 from long-term debt were $873.1 million and $298.0 million, respectively. Cash was used to repay long-term debt totaling $749.5 million and $212.3 million in the first quarters of 2009 and 2008, respectively. Cash used in the first quarter of 2009 because of a decrease in outstanding cash management obligations totaled $115.3 million. Cash provided in the first quarter of 2008 because of an increase in outstanding cash management obligations totaled $22.5 million. Cash was used for other financing activities totaling $0.1 million in the first quarter of 2009. Cash was used to pay dividends totaling $1.4 million in the first quarter of 2008.

The only material changes during the three months ended December 27, 2008, outside the ordinary course of business, in the specified contractual obligations presented in the Company's Annual Report on Form 10-K for 2008 were the borrowings and repayments under the DIP Credit Agreement, the draw by the holders of the Camp Company Industrial Development Corporation environmental facilities revenue bonds on the standby letter of credit supporting the bonds and the Company's borrowing under the secured revolving credit facility expiring in 2013 to cover the previously mentioned standby letter of credit. At December 27, 2008, payments due in less than one year on obligations under the DIP Credit Agreement totaled $101.2 million. The borrowing under the secured revolving credit facility to cover the drawn letter of credit supporting the environmental facilities revenue bonds is classified as a liability subject to compromise at December 27, 2008.

Accounting Pronouncements

Discussion regarding our pending adoption of Financial Accounting Standards Board Staff Position ("FSP") FAS142-3, Determination of the Useful Life of Intangible Assets, and FSP FAS132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

Critical Accounting Policies

During the three months ended December 27, 2008, (i) we did not change any of our existing critical accounting policies, (ii) no existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate, and (iii) there were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Feed Ingredients

We purchase certain commodities, primarily corn and soybean meal, for use as ingredients in the feed we either sell commercially or consume in our live operations. As a result, our earnings are affected by changes in the price and availability of such feed ingredients. In the past, we have from time to time attempted to minimize our exposure to the changing price and availability of such feed ingredients using various techniques, including, but not limited to, (i) executing purchase agreements with suppliers for future physical delivery of feed ingredients at established prices and (ii) purchasing or selling derivative financial instruments such as futures and options. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes.

Market risk is estimated as a hypothetical 10% increase in the weighted–average cost of our primary feed ingredients as of December 27, 2008. Based on our feed consumption during the three months ended December 27, 2008, such an increase would have resulted in an increase to cost of sales of approximately $61.2 million, excluding the impact of any feed ingredients derivative financial instruments in that period. A 10% change in ending feed ingredients inventories at December 27, 2008 would be $6.4 million, excluding any potential impact on the production costs of our chicken inventories.

Interest Rates

Our earnings are affected by changes in interest rates due to the impact those changes have on our variable–rate debt instruments and the fair value of our fixed–rate debt instruments. Our variable–rate debt instruments represented 57.4% of our long–term debt at December 27, 2008. Holding other variables constant, including levels of indebtedness, a 25–basis–points increase in interest rates would have increased our interest expense by $0.8 million for the first quarter of 2009. These amounts are determined by considering the impact of the hypothetical interest rates on our variable–rate long–term debt at December 27, 2008. Due to our current financial condition, our public fixed–rate debt is trading at a substantial discount. As of December 27, 2008, the most recent trades of our 7 5/8% senior unsecured notes and 8 3/8% senior subordinated unsecured notes were executed at average prices of $25.82 per $100.00 par value and $6.87 per $100.00 par value, respectively. Management also expects that the fair value of our non–public fixed–rate debt has also decreased, but cannot reliably estimate the fair value at this time.