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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	\$ 10,783

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NOTE E—RESTRUCTURING ACTIVITIES

Through the second quarter of 2009 and in 2008, the Company completed the following restructuring activities:

Second Quarter 2009

- Announced the upcoming closures of processing complexes in Douglas, Georgia; El Dorado, Arkansas and Franconia, Pennsylvania,
- Announced the upcoming closure of a processing complex in Farmerville, Louisiana, subject to a potential sale of the complex,
- Closed a distribution center in Houston, Texas, and
- Reduced or consolidated production at various facilities throughout the US.

First Quarter 2009

- Reduced its workforce by approximately 265 non-production employees, including the resignations of the former Chief Executive Officer and former Chief Operating Officer.

Fourth Quarter 2008

- Closed a processing complex in Clinton, Arkansas,
- Idled a processing complex in Bossier City, Louisiana, and
- Closed a distribution center in El Paso, Texas.

Third Quarter 2008

- Transferred certain operations previously performed at a processing complex in El Dorado, Arkansas to other complexes, and
- Closed an administrative office building in Duluth, Georgia.

Second Quarter 2008

- Closed a processing complex in Siler City, North Carolina, and
- Closed six distribution centers in Pompano Beach, Florida; Plant City, Florida; Oskaloosa, Iowa; Jackson, Mississippi; Cincinnati, Ohio and Nashville, Tennessee.

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Significant actions that occurred in the second quarter of 2009 were approved by the Bankruptcy Court, when required under the Bankruptcy Code, as part of the Company's reorganization efforts. These actions began in January 2009 and are expected to be completed in June 2009. Significant actions that occurred from the second quarter of 2008 through the first quarter of 2009 were approved by the Company's Board of Directors as part of a plan intended to curtail losses amid record-high costs for corn, soybean meal and other feed ingredients and an oversupply of chicken in the US. These actions began in March 2008 and were completed in March 2009. The affected processing complexes and distribution centers employed approximately 6,080 individuals. Virtually all of these production employees, along with the approximately 265 non-production employees mentioned above, were impacted by the restructuring activities.

Results of operations for the three and six months ended March 28, 2009 included restructuring charges totaling \$7.5 million and \$11.6 million, respectively, related to these actions. All of these restructuring charges, with the exception of certain lease continuation costs, have resulted in cash expenditures or will result in cash expenditures within one year. Results of operations for the three and six months ended March 28, 2009 also included adjustments totaling \$3.8 million and \$5.1 million, respectively, that reduced the accrued costs. These adjustments included the elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2008 restructuring actions during both the first and second quarters of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for several of the 2008 restructuring actions during the second quarter of 2009.

The following table sets forth restructuring activity that occurred during the six months ended March 28, 2009:

	Accrued Lease Obligation	Accrued Severance and Employee Retention	Accrued Other Restructuring Costs (In thousands)	Restructuring- Related Inventory Reserves	Total
September 27, 2008	\$ 4,466	\$ 2,694	\$ 5,651	\$ 1,212	\$ 14,023
Accruals	372	3,647	60	—	4,079
Payment	(330)	(4,288)	(705)	(715)	(6,038)
Adjustments	—	(1,269)	—	—	(1,269)
December 27, 2008	4,508	784	5,006	497	10,795
Accruals	—	7,484	—	4,937	12,421
Payment	(98)	(129)	(309)	(285)	(821)
Adjustments	(2,574)	(446)	(790)	(212)	(4,022)
March 28, 2009	\$ 1,836	\$ 7,693	\$ 3,907	\$ 4,937	\$ 18,373

Costs incurred in the second quarter of 2009 are classified as reorganization items. Consistent with the Company's previous practice and because management believes costs incurred in the first quarter of 2009 are related to ceasing production at previously announced facilities and not directly related to the Company's ongoing production, they are classified as a component of operating income (loss) below gross profit.

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The Company recognized impairment charges totaling \$12.0 million during the second quarter of 2008 to reduce the carrying amounts of certain property, plant, equipment and other assets located at or related to facilities closed in 2008 to their estimated fair values. Consistent with our previous practice and because management believes the realization of the carrying amounts of the affected assets was directly related to the Company's production activities, the charges were reported as a component of gross profit (loss).

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.

We continue to review and evaluate various restructuring and other alternatives to streamline our operations, improve efficiencies and reduce costs. Such initiatives may include selling assets, idling facilities, consolidating operations and functions, relocating or reducing production and voluntary and involuntary employee separation programs. Any such actions may require us to obtain the pre-approval of our lenders under our DIP Credit Agreement and the Bankruptcy Court. In addition, such actions will subject the Company to additional short-term costs, which may include facility shutdown costs, asset impairment charges, lease commitment costs, employee retention and severance costs and other closing costs.

#### NOTE F—FAIR VALUE MEASUREMENTS

Effective September 28, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. This standard established a framework for measuring fair value and required enhanced disclosures about fair value measurements. SFAS No. 157 clarified that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 also required disclosure about how fair value was determined for assets and liabilities and established a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

- |         |  |
|---------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities;   |
| Level 2 | Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or |
| Level 3 | Unobservable inputs, such as discounted cash flow models or valuations.  |

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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As of March 28, 2009, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, short-term investments in available-for-sale securities and long-term investments in available-for-sale securities. Cash equivalents, with the exception of one Level 3 fund-of-funds investment, consist of short-term, highly liquid, income-producing investments such as money market funds and other funds that have maturities of 90 days or less which are traded in active markets. Short-term investments in available-for-sale securities consist of short-term, highly liquid, income-producing investments such as municipal debt securities that have maturities of greater than 90 days but less than one year which are traded in active markets. Long-term investments in available-for-sale securities consist of income-producing investments such as municipal debt securities, corporate debt securities and equity securities that have maturities of greater than one year which are traded in active markets.

The following items are measured at fair value on a recurring basis at March 28, 2009:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	\$ 14,078	\$ —	\$ 1,004	\$ 15,082
Restricted cash equivalents	6,664	—	—	6,664
Short-term investments in available-for-sale securities	8,126	—	—	8,126
Long-term investments in available-for-sale securities	55,500	—	—	55,500

The following table presents the Company's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 for the three and six months ended March 28, 2009:

	Fund of Funds	Auction Rate Securities	Total
	(in thousands)		
Balance at September 27, 2008	\$ 1,197	\$ 2,425	\$ 3,622
Included in other comprehensive income	(210)	—	(210)
Balance at December 27, 2008	\$ 987	\$ 2,425	\$ 3,412
Sale of securities	—	(2,425)	(2,425)
Included in other comprehensive income	17	—	17
Balance at March 28, 2009	1,004	—	1,004

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NOTE G—TRADE ACCOUNTS AND OTHER RECEIVABLES

Trade accounts and other receivables, less allowance for doubtful accounts, consisted of the following components:

	March 28, 2009	September 27, 2008
	(In thousands)	
Trade accounts receivable	\$ 300,534	\$ 135,003
Other receivables	17,437	13,854
Receivables, gross	317,971	148,857
Allowance for doubtful accounts	(6,500)	(4,701)
Receivables, net	<u>\$ 311,471</u>	<u>\$ 144,156</u>

In connection with the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended, 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. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement. The loss recognized on the sold receivables during the six months ended March 28, 2009 was not material.

NOTE H—INVENTORIES

Inventories consisted of the following components:

	March 28, 2009	September 27, 2008
	(In thousands)	
Chicken:		
Live chicken and hens	\$ 310,847	\$ 385,511
Feed and eggs	211,267	265,959
Finished chicken products	283,586	365,123
Total chicken inventories	<u>805,700</u>	<u>1,016,593</u>
Other products:		
Commercial feed, table eggs, retail farm store and other	\$ 17,112	\$ 13,358
Distribution inventories (other than chicken products)	2,708	6,212
Total other products inventories	<u>19,820</u>	<u>19,570</u>
Total inventories	<u>\$ 825,520</u>	<u>\$ 1,036,163</u>

Inventories included a lower-of-cost-or-market allowance of \$5.4 million and \$26.6 million at March 28, 2009 and September 27, 2008, respectively.

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NOTE I—IDENTIFIED INTANGIBLE ASSETS

Identified intangible assets, net consisted of the following components:

	Useful Life (Years)	Original Cost	Accumulated Amortization (In thousands)	Carrying Amount
March 28, 2009:				
Trade names	3-15	\$ 39,271	\$ (19,248)	\$ 20,023
Customer relationships	13	51,000	(8,827)	42,173
Non-compete agreement	3	300	(225)	75
Total		\$ 90,571	\$ (28,300)	\$ 62,271
September 27, 2008:				
Trade names		\$ 39,271	\$ (16,168)	\$ 23,103
Customer relationships		51,000	(6,865)	44,135
Non-compete agreement		300	(175)	125
Total		\$ 90,571	\$ (23,208)	\$ 67,363

We recognized amortization expense of \$2.5 million during both the three months ended March 28, 2009 and March 29, 2008. We recognized amortization expense of \$5.1 million during both the six months ended March 28, 2009 and March 29, 2008.

We test intangible assets subject to amortization for impairment and estimate their fair values using the same assumptions and techniques we employ on property, plant and equipment. For information on possible future impairment of identified intangible assets carrying amounts, see Note J—Property, Plant and Equipment.

NOTE J—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following components:

	March 28, 2009	September 27, 2008
	(In thousands)	
Land	\$ 111,085	\$ 111,567
Buildings, machinery and equipment	2,468,902	2,465,608
Autos and trucks	61,149	64,272
Construction-in-progress	55,975	74,307
Property, plant and equipment, gross	2,697,111	2,715,754
Accumulated depreciation	(1,123,615)	(1,042,750)
Property, plant and equipment, net	\$ 1,573,496	\$ 1,673,004

We recognized depreciation expense related to our continuing operations of \$55.7 million and \$56.4 million during the three months ended March 28, 2009 and March 29, 2008, respectively.



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We recognized depreciation expense related to our continuing operations of \$111.8 million and \$108.4 million during the six months ended March 28, 2009 and March 29, 2008, respectively. We also recognized depreciation charges related to our discontinued turkey business of \$0.3 million and \$0.7 million during the three and six months ended March 29, 2008, respectively. We did not incur depreciation charges related to our discontinued turkey business in the three and six months ended March 28, 2009.

At the present time, the Company's forecasts indicate that it can recover the carrying value of its operating assets based on the projected cash flows of the operations. A key assumption in management's forecast is that the Company's sales volumes will generate historical margins as supply and demand between commodities and chicken and other animal-based proteins become more balanced. However, the exact timing of the return to historical margins is not certain, and if the return to historical margins is delayed, impairment charges could become necessary in the future.

The Company currently classifies certain assets related to its processing complex in Farmerville, Louisiana and its distribution centers in El Paso, Texas and Plant City, Florida as assets held for sale. At March 28, 2009 and September 27, 2008, the Company reported assets held for sale totaling \$52.1 million and \$17.4 million, respectively, on its Consolidated Balance Sheets. The Company has received an offer to purchase the processing complex in Farmerville, Louisiana for \$80.0 million, subject to a price adjustment for associated inventory and other reimbursements.

The Company closed its processing complexes in Bossier City, Louisiana and Clinton, Arkansas in the first quarter of 2009 and announced plans in the second quarter of 2009 to close its processing complexes in Douglas, Georgia; El Dorado, Arkansas, and Franconia, Pennsylvania in the subsequent quarter. Although the Company plans to conduct an auction of each of these assets at this time, management is not certain whether any bids acceptable to the Company will be received or that the Board of Directors would determine that divestiture of these assets is in the best interest of the bankruptcy estate. Management is therefore not certain that it can or will divest of these assets within one year and, accordingly, has not classified them as assets held for sale. The Company continues to depreciate these assets. At March 28, 2009, the carrying amount of these idled assets was \$97.6 million based on depreciable value of \$149.7 million and accumulated depreciation of \$52.1 million.

Management does not believe that the aggregate carrying amount of the assets held for sale or the assets in the process of being idled is significantly impaired at the present time. However, should the carrying amounts of these assets exceed the bids received, if any, in the upcoming auctions, impairment charges could become necessary.

In April 2009, the Company announced the upcoming closure of its processing complex in Dalton, Georgia. The Company will recognize the carrying amount of the property, plant and equipment related to this complex as idled assets during third quarter of 2009.

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NOTE K—ACCRUED EXPENSES

Accrued expenses not subject to compromise consisted of the following components:

	March 28, 2009	September 27, 2008
	(In thousands)	
Compensation and benefits	\$ 114,699	\$ 118,803
Interest and debt maintenance	12,898	35,488
Self insurance	99,656	170,787
Other	92,342	123,745
Total accrued expenses	<u>\$ 319,595</u>	<u>\$ 448,823</u>

For information on accrued restructuring costs, see Note E—Restructuring Activities. For information on accrued expenses subject to compromise, see Note M—Liabilities Subject to Compromise.

NOTE L—SHORT-TERM NOTES PAYABLE AND LONG-TERM DEBT

Short-term notes payable and long-term debt consisted of the following components:

	Maturity	March 28, 2009	September 27, 2008
		(In thousands)	
Short-term notes payable:			
Post-petition credit facility with notes payable at 8.00% plus the greatest of the facility agent's prime rate, the average federal funds rate plus 0.50%, or LIBOR plus 1.00%	2009	\$ 89,792	\$ —
Long-term debt:			
Senior unsecured notes, at 7 5/8%	2015	\$ 400,000	\$ 400,000
Senior subordinated unsecured notes, at 8 3/8%	2017	250,000	250,000
Secured revolving credit facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%	2013	216,247	181,900
Secured revolving credit facility with notes payable at LIBOR plus 1.65% to LIBOR plus 3.125%	2011	38,950	51,613
Secured revolving/term credit facility with four notes payable at LIBOR plus a spread, one note payable at 7.34% and one note payable at 7.56%	2016	1,126,398	1,035,250
Other	Various	33,861	23,220
Long-term debt		2,065,456	1,941,983
Current maturities of long-term debt		—	(1,874,469)
Long-term debt subject to compromise		<u>(2,026,506)</u>	<u>—</u>
Long-term debt, less current maturities		<u>\$ 38,950</u>	<u>\$ 67,514</u>

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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.

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the US 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 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement dated December 31, 2008 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 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.

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

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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.

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 six months of 2009, the Company borrowed \$616.7 million and repaid \$525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed \$214.1 million and repaid \$179.7 million under the secured revolving credit facility expiring in 2013, borrowed \$376.1 million and repaid \$286.3 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, which expires in 2011, now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIE 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 TIE 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

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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 \$1,999.6 million as of March 28, 2009. 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 \$3.3 million and \$4.4 million in the three and six months ended March 28, 2009.

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

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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 received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

#### NOTE M—LIABILITIES SUBJECT TO COMPROMISE

Liabilities subject to compromise refers to both secured and unsecured obligations that will be accounted for under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-Chapter 11 liabilities are stayed. SOP 90-7 requires pre-petition liabilities that are subject to compromise to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represent the estimated amount expected to be allowed on known or potential claims to be resolved through the Chapter 11 process, and remain subject to future adjustments arising from negotiated settlements, actions of the Bankruptcy Court, rejection of executory contracts and unexpired leases, the determination as to the value of collateral securing the claims, proofs of claim, or other events. Liabilities subject to compromise also include certain items that may be assumed under the plan of reorganization, and as such, may be subsequently reclassified to liabilities not subject to compromise. The Company has included secured debt as a liability subject to compromise as management believes that there remains uncertainty to the terms under a plan of reorganization since the filing recently occurred. At hearings held in December 2008, the Court granted final approval of many of the Debtors' "first day" motions covering, among other things, human capital obligations, supplier relations, insurance, customer relations, business operations, certain tax matters, cash management, utilities, case management and retention of professionals. Obligations associated with these matters are not classified as liabilities subject to compromise.

In accordance with SOP 90-7, debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing debt issuance costs to the extent necessary to report the debt at this allowed amount). Through May 2, 2009, the Bankruptcy Court had not classified any of the Debtors' outstanding debt as allowed claims. Therefore, the Company has classified the Debtors' outstanding debt as Liabilities subject to compromise on the Consolidated Balance Sheet. The Company has not adjusted debt issuance costs, totaling \$22.6 million at March 28, 2009, related to the Debtors' outstanding debt. The Company may be required to expense these amounts or a portion thereof as reorganization items if the Bankruptcy Court ultimately determines that a portion of the debt is subject to compromise.

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The Debtors have rejected certain pre-petition executory contracts and unexpired leases with respect to the Debtors' operations with the approval of the Bankruptcy Court and may reject additional ones in the future. Damages resulting from rejection of executory contracts and unexpired leases are generally treated as general unsecured claims and will be classified as liabilities subject to compromise. Holders of pre-petition claims are required to file proofs of claims by the "general bar date" of June 1, 2009. A bar date is the date by which certain claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 cases. Creditors were notified of the general bar date and the requirement to file a proof of claim with the Bankruptcy Court. Differences between liability amounts estimated by the Debtors and claims filed by creditors will be investigated and, if necessary, the Bankruptcy Court will make a final determination of the allowable claim. The determination of how liabilities will ultimately be treated cannot be made until the Bankruptcy Court approves a Chapter 11 plan of reorganization. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time.

Liabilities subject to compromise consisted of the following:

	March 28, 2009
	(In thousands)
Accounts payable	\$ 52,697
Accrued expenses	129,689
Secured long-term debt	1,369,511
Unsecured long-term debt	656,996
	<hr/>
Total liabilities subject to compromise	\$ 2,208,893

Liabilities subject to compromise includes trade accounts payable related to pre-petition purchases, all of which were not paid. As a result, the Company's cash flows from operations were favorably affected by the stay of payment related to these accounts payable.

**NOTE N—INCOME TAXES**

The Company recorded income tax expense of \$2.6 million, a (1%) effective tax rate, for the six months ended March 28, 2009, compared to an income tax benefit of \$57.0 million, a 28% effective tax rate, for the six months ended March 29, 2008. The income tax benefit decreased from the 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 US 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.

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With few exceptions, the Company is no longer subject to US federal, state or local income tax examinations for years prior to 2003 and is no longer subject to Mexico income tax examination for years prior to 2005. We are currently under audit by the Internal Revenue Service for the tax years 2003 through 2006. While we expect certain claims made by US federal, state or local taxing authorities will be allowed, it is not practicable at this time to estimate the amount of significant payments, if any, to be made within the next 12 months.

NOTE O—COMPREHENSIVE LOSS

Components of comprehensive loss include:

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
	(In thousands)			
Net loss	\$ (58,765)	\$ (111,448)	\$ (287,546)	\$ (143,777)
Unrealized gain (loss) on securities, net of income tax impact	280	(518)	457	(686)
Comprehensive loss	<u>\$ (58,485)</u>	<u>\$ (111,966)</u>	<u>\$ (287,089)</u>	<u>\$ (144,463)</u>

Unrealized gain (loss) on securities is presented net of deferred income tax liability of approximately \$149,000 and \$245,000 for the three and six months ended March 28, 2009, respectively and net of deferred income tax benefit of approximately \$281,000 and \$373,000 for the three and six months ended March 29, 2008, respectively.

NOTE P—DERIVATIVE FINANCIAL INSTRUMENTS

In October 2008, the Company suspended the use of derivative financial instruments in response to its current financial condition. We immediately settled all outstanding derivative financial instruments and recognized losses in the first quarter of 2009 totaling \$21.4 million that were recorded through cost of sales.



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NOTE Q—RELATED PARTY TRANSACTIONS

Lonnie “Bo” Pilgrim, the Senior Chairman, and certain entities related to Mr. Pilgrim are, collectively, the major stockholder of the Company (the “major stockholder”).

Cash transactions with the major stockholder or related entities are summarized below.

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
	(In thousands)			
Loan guaranty fees	\$ —	\$ 1,165	\$ 1,473	\$ 2,127
Contract grower pay	\$ 303	\$ 260	\$ 482	\$ 520
Lease payments on commercial egg property	\$ 187	\$ 188	\$ 375	\$ 375
Other sales to major stockholder	\$ 141	\$ 190	\$ 341	\$ 353
Lease payments and operating expenses on airplane	\$ —	\$ 123	\$ 68	\$ 235

Pilgrim Interests, Ltd., an entity related to Lonnie “Bo” Pilgrim, guarantees a portion of the Company's debt obligations. In consideration of such guarantees, the Company has paid Pilgrim Interests, Ltd. a quarterly fee equal to 0.25% of one-half of the average aggregate outstanding balance of such guaranteed debt. Pursuant to the terms of the DIP Credit Agreement, the Company may no longer pay any loan guarantee fees without the consent of the lenders party thereto. At March 28, 2009, the Company had classified accrued loan guaranty fees totaling \$3.5 million as Liabilities subject to compromise.

The Company leased an airplane from its major stockholder under an operating lease agreement that was renewable annually. On November 18, 2008, we cancelled this aircraft lease.

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NOTE R—COMMITMENTS AND CONTINGENCIES

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 would not have a material impact on our financial condition, results of operations and cash flows.

At March 28, 2009, the Company was party to outstanding standby letters of credit totaling \$68.8 million that affected the amount of funds available for borrowing under the secured revolving credit facility expiring in 2013. At the same date, the Company was not a party to any outstanding letters of credit that would have affected the amount of funds available for borrowing under the DIP Credit Agreement.

The Company is subject to various legal proceedings and claims which arise in the ordinary course of business. In the Company's opinion, it has made appropriate and adequate accruals for claims where necessary; however, the ultimate liability for these matters is uncertain, and if significantly different than the amounts accrued, the ultimate outcome could have a material effect on the financial condition or results of operations of the Company.

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business 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. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business. Below is a summary of the most significant claims outstanding against the Company. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

Among the claims presently pending are two identical claims brought against certain executive officers and employees of the Company and the Pilgrim's Pride Compensation Committee seeking unspecified damages under section 502 of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1132. Each of these actions was brought by individual participants in the Pilgrim's Pride Stock Investment Plan, individually and on behalf of a putative class, alleging that the individual defendants breached fiduciary duties to plan participants and beneficiaries. Although the Company is not a named defendant in these actions, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

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Among the claims presently pending against the Company are two identical claims seeking unspecified damages, each brought by a stockholder, individually and on behalf of a putative class, alleging violations of certain antifraud provisions of the Securities Exchange Act of 1934. The Company intends to defend vigorously against the merits of these actions. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

Other claims presently pending against the Company are claims seeking unspecified damages brought by current and former employees seeking compensation for the time spent donning and doffing clothing and personal protective equipment. We are aware of an industry-wide investigation by the Wage and Hour Division of the US Department of Labor to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, it is possible that we may be subject to additional employee claims. We intend to assert vigorous defenses to the litigation. Nonetheless, there can be no assurances that other similar claims may not be brought against the Company.

US Immigration and Customs Enforcement ("ICE") recently investigated allegations of identity theft within our workforce. With our cooperation, ICE arrested approximately 350 of our employees in 2008 believed to have engaged in identity theft at five of our facilities. No assurances can be given that further enforcement efforts by governmental authorities against our employees or the Company will not disrupt a portion of our workforce or our operations at one or more of our facilities, thereby negatively impacting our business.

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NOTE S—BUSINESS SEGMENTS

Subsequent to the sale of our turkey operations, we operate in two reportable business segments as (1) a producer and seller of chicken products and (2) a seller of other products. The following table presents certain information regarding our segments:

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
	(In thousands)			
Net sales to customers:				
Chicken:				
United States	\$ 1,476,292	\$ 1,722,967	\$ 3,063,257	\$ 3,451,109
Mexico	109,066	127,312	245,117	248,310
Total chicken	1,585,358	1,850,279	3,308,374	3,699,419
Other Products:				
United States	105,583	243,907	250,367	434,296
Mexico	7,161	6,608	16,352	14,432
Total other products	112,744	250,515	266,719	448,728
	\$ 1,698,102	\$ 2,100,794	\$ 3,575,093	\$ 4,148,147
Operating income (loss):				
Chicken:				
United States	\$ 10,929	\$ (156,562)	\$ (167,707)	\$ (175,656)
Mexico	11,804	(3,720)	3,854	(7,812)
Total chicken	22,733	(160,282)	(163,853)	(183,468)
Other products:				
United States	(4,739)	33,464	4,174	56,235
Mexico	1,851	880	3,732	1,965
Total other products	(2,888)	34,344	7,906	58,200
Asset impairment	—	(12,022)	—	(12,022)
Restructuring items, net	435	(5,669)	(1,987)	(5,669)
	\$ 20,280	\$ (143,629)	\$ (157,934)	\$ (142,959)
Depreciation and amortization(a)(b)(c)				
Chicken:				
United States	\$ 54,349	\$ 53,875	\$ 107,958	\$ 104,332
Mexico	2,387	2,618	4,824	5,244
Total chicken	56,736	56,493	112,782	109,576
Other products:				
United States	3,722	3,501	7,776	5,900
Mexico	55	63	113	125
Total other products	3,777	3,564	7,889	6,025
	\$ 60,513	\$ 60,057	\$ 120,671	\$ 115,601