NOTE C—REORGANIZATION ITEMS

SOP 90–7 requires separate disclosure of reorganization items such as realized gains and losses from the settlement of pre–petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing the Debtors under Chapter 11. The Debtors' reorganization items for the three and nine months ended June 27, 2009 consist of the following:

	Three Months Ended June 27, 2009	Nine Months Ended June 27, 2009
	(In thousands)	
Professional fees directly related to reorganization (a)	$ 15,118	$ 35,238
DIP Credit Agreement related expenses	—	11,375
Net gain on asset disposals (b)	(12,233)	(12,233)
Other (c)	13,894	31,003
Reorganization items, net	$ 16,779	$ 65,383

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

(b) Net gain on asset disposals includes (1) gain on the sale of the Farmerville, LA processing facility and (2) loss on the sale of the Company's interest in a hog farming joint venture.

(c) Other expenses includes (1) severance, grower pay, live flock impairment, inventory disposal costs, equipment relocation costs and other shutdown costs related to the closed processing facilities in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana; Franconia, Pennsylvania and Dalton, Georgia, (2) severance costs related to the closed distribution center in Houston, Texas, the February 2009 Operations management reduction–in–force ("RIF") action, the April 2009 non–production employee RIF action, and reduced or consolidated production at various facilities throughout the US, (3) asset impairment costs related to the closed processing facility in Dalton, Georgia, and (4) fees associated with the termination of the RPA on December 3, 2008.

In May 2009, the Company sold its closed processing complex and certain inventories in Farmerville, Louisiana for $72.3 million. The Company recognized a gain of $15.0 million on this transaction that is included in Reorganization items, net on its Consolidated Statement of Operations. In June 2009, the Company disposed of its interest in a hog farming joint venture and wrote off outstanding receivables due from that joint venture. The Company recognized a loss on these transactions of $2.8 million that is included in Reorganization items, net on its Consolidated Statement of Operations.

Net cash paid for reorganization items for the three and nine months ended June 27, 2009 totaled $19.3 million and $38.6 million, respectively. For the three months ended June 27, 2009, this represented payment of professional fees directly related to reorganization totaling $9.9 million, severance payments totaling $4.0 million and payment of facility closure costs totaling $5.4 million. For the nine months ended June 27, 2009, this represented payment of professional fees directly related to the reorganization totaling $16.6 million, payment of DIP Credit Agreement related expenses totaling $11.4 million, severance payments of $4.5 million, payment of facility closure costs totaling $5.4 million and payment of fees associated with the termination of the RPA totaling $0.7 million.

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

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 June 27, 2009 and did not recognize additional operating results related to our discontinued turkey business during the third quarter of 2009. For the period of time until we have collected the remaining outstanding receivables and settled outstanding 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 nine months ended June 28, 2008 totaled $0.5 million and $1.1 million, respectively. We did not allocate interest to the discontinued business in the three and nine months ended June 27, 2009.

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		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands)			
Net sales	$ —	$ 14,779	$ 25,788	$ 70,791
Income (loss) from operation of discontinued business before income taxes	$ —	$ (7,127)	$ 962	$ (7,149)
Income tax benefit	—	(2,690)	(363)	(2,699)
Income (loss) from operation of discontinued business, net of tax	$ —	$ (4,437)	$ 599	$ (4,450)
Gain on sale of discontinued business before income taxes	$ —	$ —	$ —	$ 1,450
Income tax expense	—	—	—	547
Gain on sale of discontinued business, net of tax	$ —	$ —	$ —	$ 903

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

	June 27, 2009	September 27, 2008
	(In thousands)	
Trade accounts and other receivables, less allowance for doubtful accounts	$ 69	$ 5,881
Inventories	—	27,638
Assets of discontinued business	$ 69	$ 33,519
Accounts payable	$ —	$ 7,737
Accrued expenses	1,470	3,046
Liabilities of discontinued business	$ 1,470	$ 10,783

NOTE E—RESTRUCTURING ACTIVITIES

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

- Closed processing complexes in Dalton, Georgia; Douglas, Georgia; El Dorado, Arkansas; Franconia, Pennsylvania; Clinton, Arkansas; Bossier City, Louisiana and Siler City, North Carolina,
- Sold a closed processing complex in Farmerville, Louisiana,
- Sold closed distribution centers in El Paso, Texas; Pompano Beach, Florida and Plant City, Florida,
- Closed distribution centers in Houston, Texas; Oskaloosa, Iowa; Jackson, Mississippi; Cincinnati, Ohio and Nashville, Tennessee,
- Reduced its workforce by approximately 440 non–production positions, including the resignations of the former Chief Executive Officer and former Chief Operating Officer,
- Closed an administrative office building in Duluth, Georgia in June 2008, and
- Reduced or consolidated production at various other facilities throughout the US.

Significant actions that occurred from the second quarter of 2009 through the third 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 were 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 June 2009. These restructuring activities resulted in the elimination of approximately 6,390 production positions and 440 non–production positions.

Results of operations for the three and nine months ended June 27, 2009 included restructuring charges totaling \$6.6 million and \$23.1 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 nine months ended June 27, 2009 also included adjustments totaling \$2.1 million and \$7.4 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 primarily during the first and second quarters of 2009, elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2009 reorganization actions primarily during the third quarter of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009, 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 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for the Douglas, Georgia reorganization action during the third quarter of 2009.

The following table sets forth restructuring activity that occurred during the nine months ended June 27, 2009:

	Accrued Lease Obligation	Accrued Severance and Employee Retention	Accrued Other Restructuring Costs	Restructuring–Related Inventory Reserves	Total
			(In thousands)		
September 27, 2008	$ 4,466	$ 2,694	$ 5,651	$ 1,212	$ 14,023
Accruals	372	3,647	60	—	4,079
Payment / Disposal	(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 / Disposal	(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
Accruals	—	4,538	2,000	92	6,630
Payment / Disposal	(97)	(4,147)	(1,739)	(3,760)	(9,743)
Adjustments	—	(1,604)	(541)	—	(2,145)
June 27, 2009	$ 1,739	$ 6,480	$ 3,627	$ 1,269	$ 13,115

Costs incurred in the second and third quarters of 2009 are primarily 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.

The Company recognized impairment charges totaling $5.4 million during the third quarter of 2009 to reduce the carrying amounts of certain property, plant and equipment located at a facility closed in 2009 to their estimated fair values. These costs were classified as reorganization items. 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).

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—FINANCIAL INSTRUMENTS

FSP FAS107–1 and APB 28–1 Disclosures

Effective for the quarter ended June 27, 2009, the Company adopted FSP FAS107–1 and APB28–1, Interim Disclosures about Fair Value of Financial Instruments, which extends the disclosure requirements regarding the fair value of financial instruments under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim financial statements of publicly traded companies. The asset (liability) amounts recorded in the Consolidated Balance Sheet (carrying amounts) and the estimated fair values of financial instruments at June 27, 2009 consisted of the following:

	Carrying Amount	Fair Value	Reference
	(In thousands)		
Cash and cash equivalents	$ 101,179	$ 101,179	
Current restricted cash and cash equivalents	6,677	6,677	
Trade accounts and other receivables	291,207	291,207	Note G
Investments in available–for–sale securities	66,083	66,083	
Long–term restricted cash and cash equivalents(a)	6,254	6,254	
Accounts payable and accrued expenses	(474,629)	(474,629)	Note J
Public debt obligations	(656,996)	(553,450)	Note K
Non–public credit facilities	(1,412,017)	(b)	Note K

(a) Long–term restricted cash and cash equivalents are included in Other assets on the Consolidated Balance Sheet.

(b) Management also expects that the fair value of our non–public credit facilities has also decreased, but cannot reliably estimate the fair value at this time.

The carrying amounts of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and certain other liabilities approximate their fair values due to their relatively short maturities. The Company adjusts its investments to fair value based on quoted market prices in active markets for identical investments, quoted market prices in active markets for similar investments with inputs that are observable for the subject investment or unobservable inputs such as discounted cash flow models or valuations.

FSP FAS115–2 and 124–2 Disclosures

Effective for the quarter ended June 27, 2009, the Company adopted FSP FAS115–2 and FAS124–2, Recognition and Presentation of Other–Than–Temporary Impairments, which extends the disclosure requirements about debt and equity securities established in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, as well as provides new disclosure requirements.

The following is a summary of our cash equivalents and current and long–term investments in available–for–sale securities:

	June 27, 2009		September 27, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	$ 2,104	$ 2,151	$ —	$ —
Other	4,471	4,471	—	—
Total cash equivalents	$ 6,575	$ 6,622	$ —	$ —
Current investments:				
Fixed income securities	$ 5,781	$ 5,902	$ 9,798	$ 9,835
Other	—	—	604	604
Total current investments	$ 5,781	$ 5,902	$ 10,402	$ 10,439
Long–term investments:				
Fixed income securities	$ 48,559	$ 50,855	$ 44,041	$ 44,127
Equity securities	8,289	8,289	9,775	9,775
Other	1,037	1,037	1,952	1,952
Total long–term investments	$ 57,885	$ 60,181	$ 55,768	$ 55,854

Maturities for the Company's investments in fixed income securities as of June 27, 2009 were as follows:

	Amount	Percent
	(In thousands)	
Matures in less than one year	$ 8,053	13.7%
Matures between one and two years	13,064	22.2%
Matures between two and five years	34,331	58.3%
Matures in excess of five years	3,460	5.8%
	$ 58,908	100.0%

The cost of each security sold and the amount reclassified out of accumulated other comprehensive income into earnings is determined on a specific identification basis.

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

Certain investments are held in trust as compensating balance arrangements for our insurance liability and are classified as long−term based on a maturity date greater than one year from the balance sheet date and management's intention not to use such assets in the next twelve months.

SFAS No. 157 Disclosures

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.

As of June 27, 2009, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash and cash equivalents, short−term investments in available−for−sale securities and long−term investments in available−for−sale securities. Cash equivalents 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. Long−term investments in available−for−sale securities consist of income−producing investments such as municipal debt securities, corporate debt securities, equity securities and fund−of−funds units that have maturities of greater than one year.

The following items are measured at fair value on a recurring basis at June 27, 2009:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Cash and cash equivalents	$ 98,162	$ 3,017	$ —	$ 101,179
Current restricted cash and cash equivalents	6,677	—	—	6,677
Short−term investments in available−for−sale securities	—	5,902	—	5,902
Long−term investments in available−for−sale securities	8,289	50,859	1,033	60,181
Long−term restricted cash and cash equivalents	6,254	—	—	6,254

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 nine months ended June 27, 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
Included in other comprehensive income	29	—	29
Balance at June 27, 2009	$ 1,033	$ —	$ 1,033

NOTE G—TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	June 27, 2009	September 27, 2008
	(In thousands)	
Trade accounts receivable	$ 286,701	$ 135,003
Other receivables	9,768	13,854
Receivables, gross	296,469	148,857
Allowance for doubtful accounts	(5,262)	(4,701)
Receivables, net	$ 291,207	$ 144,156

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. 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 nine months ended June 27, 2009 was not material.