PART II

Item 5.Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

During the period covered by this report, the Company's common stock was traded on the NYSE under the ticker symbol "PPC". Effective December 1, 2008, the NYSE delisted our common stock as a result of the Company's filing of its Chapter 11 petitions. Our common stock is now quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol "PGPDQ.PK."

High and low prices of and dividends relating to the Company's common stock for the periods indicated were:

	2008 Prices		2007 Prices		Dividends	
Quarter	High	Low	High	Low	2008	2007
First	$ 35.98	$ 22.52	$ 29.54	$ 23.64	$ 0.0225	$ 0.0225
Second	$ 28.96	$ 20.38	$ 33.19	$ 28.59	$ 0.0225	$ 0.0225
Third	$ 27.15	$ 12.90	$ 38.17	$ 32.77	$ 0.0225	$ 0.0225
Fourth	$ 18.16	$ 3.26	$ 40.59	$ 32.29	$ 0.0225	$ 0.0225

Holders

The Company estimates there were approximately 29,700 holders (including individual participants in security position listings) of the Company's common stock as of December 9, 2008.

Dividends

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. See Note L—Notes Payable and Long−Term Debt to the Consolidated Financial Statements included in Item 15 for additional discussions of the Company's credit facilities.

Issuer Purchases of Equity Security in 2008

The Company did not repurchase any of its equity securities in 2008.

Total Return on Registrant's Common Equity

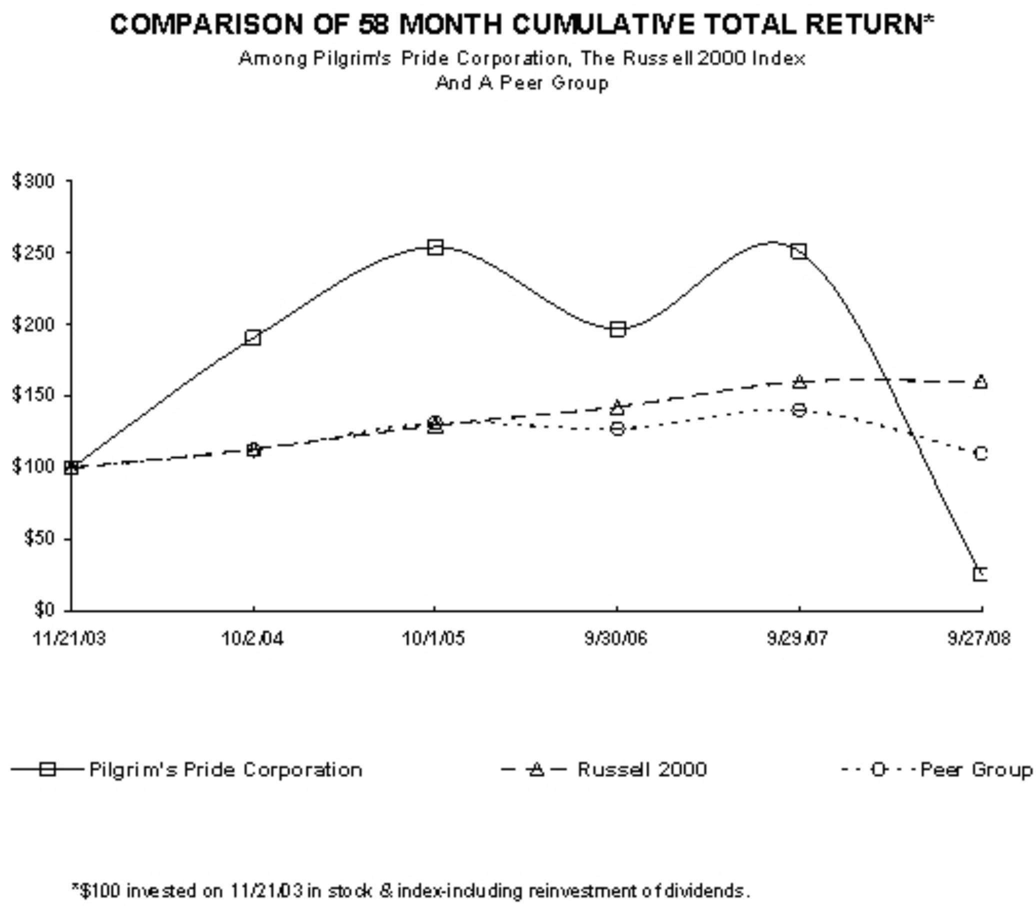
The following graphs compare the performance of the Company with that of the Russell 2000 composite index and a peer group of companies with the investment weighted on market capitalization. The total cumulative return on investment (change in the year−end stock price plus reinvested dividends) for each of the periods for the Company, the Russell 2000 composite index and the peer group is based on the stock price or composite index at the beginning of the applicable period. Companies in the peer group index include Cagle's, Inc., Sanderson Farms Inc., Hormel Foods Corp., Smithfield Foods Inc. and Tyson Foods Inc.

The first graph covers the period from November 21, 2003 through September 27, 2008 and shows the performance of the Company's single class of common stock. On November 21, 2003, each share of the Company's then outstanding Class A common stock and Class B common stock was reclassified into one share of new common stock, which is now the only authorized class of the Company's common stock.

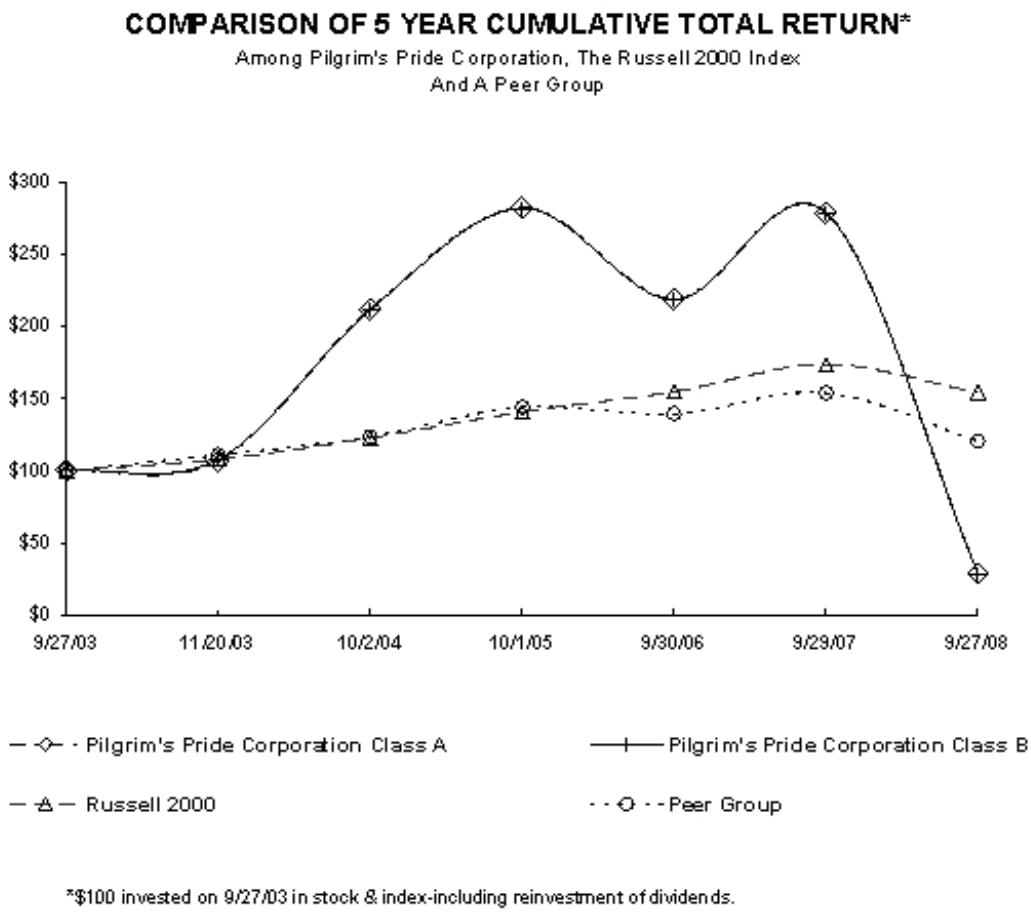
The second graph covers the five years ending September 27, 2008 and shows the performance of the Company's Class A and Class B shares after giving effect to the reclassification into the Company's single class of common stock on November 21, 2003 based on a one to one exchange ratio.

The third graph covers the period from September 27, 2003 through November 20, 2003, the last date on which the Company's Class A and Class B shares traded on the New York Stock Exchange prior to reclassification into a single new class of shares of common stock.

The stock price performance represented by these graphs is not necessarily indicative of future stock performance.

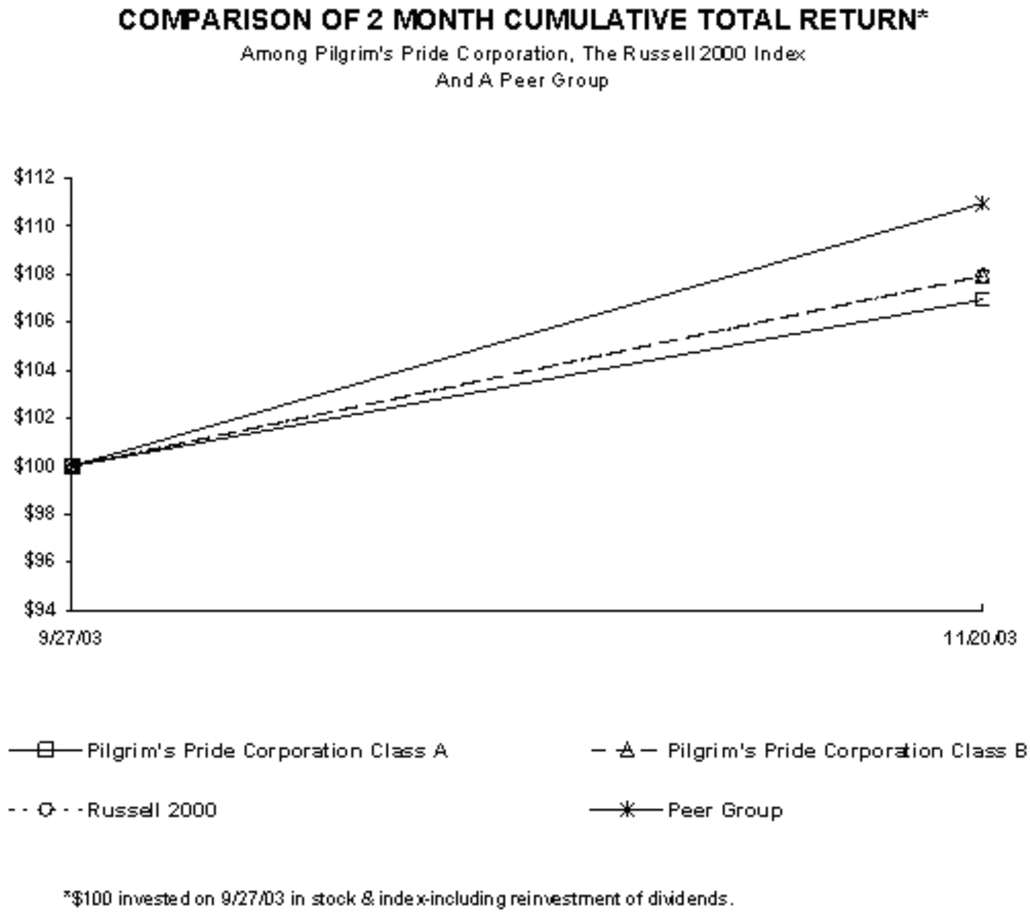


	11/21/03	10/2/04	10/1/05	9/30/06	9/29/07	9/27/08
Pilgrim's Pride Corporation	$ 100.00	$ 190.89	$ 254.14	$ 197.18	$ 251.08	$ 25.79
Russell 2000	$ 100.00	$ 113.10	$ 129.73	$ 142.61	$ 160.21	$ 160.21
Peer Group	$ 100.00	$ 112.59	$ 131.40	$ 127.35	$ 140.41	$ 110.00



	9/27/03	11/20/03	10/2/04	10/1/05	9/30/06	9/29/07	9/27/08
Pilgrim's Pride Corporation Class A(1)	$ 100.00	$ 106.95	$ 212.12	$ 282.40	$ 219.11	$ 279.00	$ 28.65
Pilgrim's Pride Corporation Class B(1)	$ 100.00	$ 107.94	$ 211.79	$ 281.96	$ 218.77	$ 278.57	$ 28.61
Russell 2000	$ 100.00	$ 107.93	$ 122.74	$ 140.79	$ 154.77	$ 173.86	$ 154.19
Peer Group	$ 100.00	$ 110.95	$ 123.52	$ 144.17	$ 139.71	$ 154.04	$ 120.69

(1) On November 21, 2003, each share of the Company's then outstanding Class A common stock and Class B common stock was reclassified into one share of new common stock, which is now the only authorized class of the Company's common stock.



	9/27/03		11/20/03	
Pilgrim's Pride Corporation Class A(1)	$	100.00	$	106.95
Pilgrim's Pride Corporation Class B(1)	$	100.00	$	107.94
Russell 2000	$	100.00	$	107.93
Peer Group	$	100.00	$	110.95

(1) On November 21, 2003, each share of the Company's then outstanding Class A common stock and Class B common stock was reclassified into one share of new common stock, which is now the only authorized class of the Company's common stock.

Item 6. Selected Financial Data

(In thousands, except ratios and per share data)	Eleven Years Ended September 27, 2008			
	2008[a]	2007[a][b]	2006[a]	2005[a]
Income Statement Data:				
Net sales	$ 8,525,112	$ 7,498,612	$ 5,152,729	$ 5,461,437
Gross profit (loss)[e]	(163,495)	592,730	297,083	751,317
Goodwill impairment	501,446	—	—	—
Operating income (loss)[e]	(1,057,696)	237,191	11,105	458,351
Interest expense, net	131,627	118,542	38,965	42,632
Loss on early extinguishment of debt	—	26,463	—	—
Income (loss) from continuing operations before income taxes[e]	(1,187,093)	98,835	(26,626)	427,632
Income tax expense (benefit)[f]	(194,921)	47,319	1,573	147,543
Income (loss) from continuing operations[e]	(992,172)	51,516	(28,199)	279,819
Net income (loss)[e]	(998,581)	47,017	(34,232)	264,979
Ratio of earnings to fixed charges[g]	(g)	1.63x	(g)	7.69x
Per Common Share Data:[h]				
Income (loss) from continuing operations	$ (14.31)	$ 0.77	$ (0.42)	$ 4.20
Net income (loss)	(14.40)	0.71	(0.51)	3.98
Cash dividends	0.09	0.09	1.09	0.06
Book value	5.07	17.61	16.79	18.38
Balance Sheet Summary:				
Working capital surplus (deficit)	$ (1,262,242)	$ 395,858	$ 528,837	$ 404,601
Total assets	3,298,709	3,774,236	2,426,868	2,511,903
Notes payable and current maturities of long-term debt	1,874,469	2,872	10,322	8,603
Long-term debt, less current maturities	67,514	1,318,558	554,876	518,863
Total stockholders' equity	351,741	1,172,221	1,117,328	1,223,598
Cash Flow Summary:				
Cash flows from operating activities	$ (680,726)	$ 464,010	$ 30,329	$ 493,073
Depreciation and amortization[i]	240,305	204,903	135,133	134,944
Impairment of goodwill and other assets	514,630	—	3,767	—
Purchases of investment securities	(38,043)	(125,045)	(318,266)	(305,458)
Proceeds from sale or maturity of investment securities	27,545	208,676	490,764	—
Acquisitions of property, plant and equipment	(152,501)	(172,323)	(143,882)	(116,588)
Business acquisitions, net of equity consideration[b][c][d]	—	(1,102,069)	—	—
Cash flows from financing activities	797,743	630,229	(38,750)	18,860
Other Data:				
EBITDA[j]	$ (820,878)	$ 414,139	$ 143,443	$ 599,274
Key Indicators (as a percent of net sales):				
Gross profit (loss)[e]	(1.9) %	7.9 %	5.8 %	13.8 %
Selling, general and administrative expenses	4.4 %	4.7 %	5.6 %	5.4 %
Operating income (loss)[e]	(12.4) %	3.2 %	0.2 %	8.4 %
Interest expense, net	1.5 %	1.6 %	0.8 %	0.8 %
Income (loss) from continuing operations[e]	(11.6) %	0.7 %	(0.5) %	5.1 %
Net income (loss)[e]	(11.7) %	0.6 %	(0.7) %	4.9 %

Eleven Years Ended September 27, 2008

2004(a)(c)	2003(a)	2002(a)	2001(a)(d)	2000	1999	1998
(53 weeks)					(53 weeks)	
$ 5,077,471	$ 2,313,667	$ 2,185,600	$ 1,975,877	$ 1,499,439	$ 1,357,403	$ 1,331,545
611,838	249,363	153,599	197,561	165,828	185,708	136,103
—	—	—	—	—	—	—
385,968	137,605	48,457	90,253	80,488	109,504	77,256
48,419	30,726	24,199	25,619	17,779	17,666	20,148
—	—	—	1,433	—	—	—
332,899	144,482	28,267	62,728	62,786	90,904	56,522
127,142	37,870	(2,475)	21,051	10,442	25,651	6,512
205,757	106,612	30,742	41,677	52,344	65,253	50,010
128,340	56,036	14,335	41,137	52,344	65,253	50,010
6.22x	4.37x	1.21x	1.80x	3.04x	4.33x	2.96x
$ 3.28	$ 2.59	$ 0.75	$ 1.01	$ 1.27	$ 1.58	$ 1.21
2.05	1.36	0.35	1.00	1.27	1.58	1.21
0.06	0.06	0.06	0.06	0.06	0.05	0.04
13.87	10.46	9.59	9.27	8.33	7.11	5.58
$ 383,726	$ 211,119	$ 179,037	$ 203,350	$ 124,531	$ 154,242	$ 147,040
2,245,989	1,257,484	1,227,890	1,215,695	705,420	655,762	601,439
8,428	2,680	3,483	5,099	4,657	4,353	5,889
535,866	415,965	450,161	467,242	165,037	183,753	199,784
922,956	446,696	394,324	380,932	342,559	294,259	230,871
$ 272,404	$ 98,892	$ 98,113	$ 87,833	$ 130,803	$ 81,452	$ 85,016
113,788	74,187	70,973	55,390	36,027	34,536	32,591
45,384	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(79,642)	(53,574)	(80,388)	(112,632)	(92,128)	(69,649)	(53,518)
(272,097)	(4,499)	—	(239,539)	—	—	—
96,665	(39,767)	(21,793)	246,649	(24,769)	(19,634)	(32,498)
$ 486,268	$ 239,997	$ 112,852	$ 136,604	$ 115,356	$ 142,043	$ 108,268
12.1 %	10.8 %	7.0 %	10.0 %	11.1 %	13.7 %	10.2 %
4.3 %	4.8 %	4.8 %	5.4 %	5.7 %	5.6 %	4.4 %
7.6 %	5.9 %	2.2 %	4.6 %	5.4 %	8.1 %	5.8 %
1.0 %	1.3 %	1.1 %	1.3 %	1.2 %	1.3 %	1.5 %
4.1 %	4.6 %	1.4 %	2.1 %	3.5 %	4.8 %	3.8 %
2.1 %	2.4 %	0.7 %	2.1 %	3.5 %	4.8 %	3.8 %

(a) In March 2008, the Company sold certain assets of its turkey business. We are reporting our operations with respect to this business as a discontinued operation for all periods presented.

(b) The Company acquired Gold Kist Inc. on December 27, 2006 for $1.139 billion. For financial reporting purposes, we have not included the operating results and cash flows of Gold Kist in our consolidated financial statements for the period from December 27, 2006 through December 30, 2006. The operating results and cash flows of Gold Kist from December 27, 2006 through December 30, 2006 were not material.

(c) The Company acquired the ConAgra Chicken division on November 23, 2003 for $635.2 million including the non−cash value of common stock issued of $357.5 million. The acquisition has been accounted for as a purchase and the results of operations for this acquisition have been included in our consolidated results of operations since the acquisition date.

(d) The Company acquired WLR Foods on January 27, 2001 for $239.5 million and the assumption of $45.5 million of indebtedness. The acquisition has been accounted for as a purchase and the results of operations for this acquisition have been included in our consolidated results of operations since the acquisition date.

(e) Gross profit, operating income and net income include the following non−recurring recoveries, restructuring charges and other unusual items for each of the years presented:

	2008	2005	2004	2003
Effect on gross profit and operating income:		(In millions)		
Operational restructuring charges	$ (13.1)	$ —	$ —	$ —
Non−recurring recoveries for recall insurance	$ —	$ —	$ 23.8	$ —
Non−recurring recoveries for avian influenza	$ —	$ —	$ —	$ 26.6
Non−recurring recoveries for vitamin and methionine litigation	$ —	$ —	$ 0.1	$ 19.9
Additional effect on operating income:				
Goodwill impairment	$ (501.4)	$ —	$ —	$ —
Administrative restructuring charges	(16.2)	$ —	$ —	$ —
Other income for litigation settlement	$ —	$ 11.7	$ —	$ —
Other income for vitamin and methionine litigation	$ —	$ —	$ 0.9	$ 36.0

In addition, the Company estimates its losses related to the October 2002 recall (excluding insurance recoveries) and the 2002 avian influenza outbreak negatively affected gross profit and operating income in each of the years presented as follows (in millions):

	2004	2003	2002
Recall effects (estimated)	$ (20.0)	$ (65.0)	$ —
Losses from avian influenza (estimated)	$ —	$ (7.3)	$ (25.6)

(f) Income tax benefit recognized in 2008 resulted primarily from net operating losses incurred in 2008 which are offset by the tax effect of goodwill impairment and valuation allowances. Income tax expense recognized in 2006 included $25.8 million associated with the restructuring of the Mexico operations and subsequent repatriation of foreign earnings under the American Jobs Creation Act of 2004. Income tax expense recognized in 2003 included a non−cash tax benefit of $16.9 million associated with the reversal of a valuation allowance on net operating losses in the Company's Mexico operations. Income tax benefit recognized in 2002 included a tax benefit of $11.9 million from changes in Mexican tax laws.

(g) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges (excluding capitalized interest). Fixed charges consist of interest (including capitalized interest) on all indebtedness, amortization of capitalized financing costs and that portion of rental expense that we believe to be representative of interest. Earnings were inadequate to cover fixed charges by $1.2 billion and $30.9 million in 2008 and 2006, respectively.

(h) Historical per share amounts represent both basic and diluted and have been restated to give effect to a stock dividend issued on July 30, 1999. The stock reclassification on November 21, 2003 that resulted in the new common stock traded as PPC did not affect the number of shares outstanding.

(i) Includes amortization of capitalized financing costs of approximately $4.9 million, $6.6 million, $2.6 million, $2.3 million, $2.0 million, $1.5 million, $1.4 million, $1.9 million, $1.2 million, $1.1 million, and $1.0 million in 2008, 2007, 2006, 2005, 2004, 2003, 2002, 2001, 2000, 1999, and 1998, respectively.

(j) "EBITDA" is defined as the sum of income (loss) from continuing operations plus interest, taxes, depreciation and amortization. EBITDA is presented because it is used by us and we believe it is frequently used by securities analysts, investors and other interested parties, in addition to and not in lieu of results prepared in conformity with accounting principles generally accepted in the US ("GAAP"), to compare the performance of companies. EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with GAAP.

A reconciliation of income (loss) from continuing operations to EBITDA is as follows:

	2008	2007	2006	2005	2004
			(In thousands)		
Income (loss) from continuing operations	$ (992,172)	$ 51,516	$ (28,199)	$ 279,819	$ 205,757
Add:					
Interest expense, net	131,627	118,542	38,965	42,632	48,419
Income tax expense (benefit)	(194,921)	47,319	1,573	147,543	127,142
Depreciation and amortization(i)	239,535	203,316	133,710	131,601	106,901
Minus:					
Amortization of capitalized financing costs(i)	4,947	6,554	2,606	2,321	1,951
EBITDA	(820,878)	414,139	143,443	$ 599,274	$ 486,268
Add:					
Goodwill impairment	501,446	—	—		
Restructuring charges	29,239	—	3,767		
Loss on early extinguishment of debt	—	26,463	—		
Adjusted EBITDA	$ (290,193)	$ 440,602	$ 147,210		

	2003	2002	2001	2000	1999	1998
			(In thousands)			
Income (loss) from continuing operations	$ 106,612	$ 30,742	$ 41,677	$ 52,344	$ 65,253	$ 50,010
Add:						
Interest expense, net	30,726	24,199	25,619	17,779	17,666	20,148
Income tax expense (benefit)	37,870	(2,475)	21,051	10,442	25,651	6,512
Depreciation and amortization(i)	66,266	61,803	50,117	36,027	34,536	32,591
Minus:						
Amortization of capitalized financing costs(i)	1,477	1,417	1,860	1,236	1,063	993
EBITDA	$ 239,997	$ 112,852	136,604	$ 115,356	$ 142,043	$ 108,268
Add:						
Loss on early extinguishment of debt			1,433			
Adjusted EBITDA			$ 138,037			

Note: We have included EBITDA adjusted to exclude goodwill impairment in 2008, restructuring charges in 2008 and 2006, and losses on early extinguishment of debt in 2007 and 2001. We believe investors may be interested in our EBITDA excluding these items because this is how our management analyzes EBITDA from continuing operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Description of the Company

Pilgrim's Pride Corporation is one the largest chicken companies in the US, Mexico and Puerto Rico. Our fresh chicken retail line is sold in the southeastern, central, southwestern and western regions of the US, throughout Puerto Rico, and in the northern and central regions of Mexico. Our prepared chicken products meet the needs of some of the largest customers in the food service industry across the US. Additionally, the Company exports commodity chicken products to 80 countries. As a vertically integrated company, we control every phase of the production of our products. We operate feed mills, hatcheries, processing plants and distribution centers in 14 US states, Puerto Rico and Mexico. Pilgrim's Pride operates in two business segments—Chicken and Other Products.

Our fresh chicken products consist of refrigerated (non−frozen) whole or cut−up chicken, either pre−marinated or non−marinated, and pre−packaged chicken in various combinations of freshly refrigerated, whole chickens and chicken parts. Our prepared chicken products include portion−controlled breast fillets, tenderloins and strips, delicatessen products, salads, formed nuggets and patties and bone−in chicken parts. These products are sold either refrigerated or frozen and may be fully cooked, partially cooked or raw. In addition, these products are breaded or non−breaded and either pre−marinated or non−marinated.

Business Environment

The Company faced an extremely challenging business environment in 2008. We reported a net loss of $998.6 million, or $14.40 per common share, for the year, which included a negative gross margin of $163.5 million. As of September 27, 2008, the Company's accumulated deficit aggregated $317.1 million. During 2008, the Company used $680.7 million of cash in operations. At September 27, 2008, we had cash and cash equivalents totaling $61.6 million. The following factors contributed to this performance:

- Feed ingredient costs increased substantially to unprecedented levels between the first quarter of 2007 and the end of 2008 principally because of increasing demand for these products around the world and alternative uses of these products, such as ethanol and biodiesel production. The following table compares the highest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the past four years and for each quarter in 2008:

	Corn	Soybean Meal
2008:		
Fourth Quarter	$ 7.50	$ 455.50
Third Quarter	7.63	427.90
Second Quarter	5.70	384.50
First Quarter	4.57	341.50
2007	4.37	286.50
2006	2.68	204.50
2005	2.63	238.00

- While chicken selling prices generally improved over the first 18 months of the same period, prices did not improve sufficiently to offset the higher costs of feed ingredients. More recently, prices have actually declined as the result of weak demand for breast meat and a general oversupply of chicken in the US. Although many producers within the industry, including Pilgrim's Pride, cut production in an effort to correct the oversupply situation, the cuts were neither timely nor deep enough to cause noticeable improvement to date.

- The Company recognized losses on derivative financial instruments, primarily futures contracts and options on corn and soybean meal, during 2008 totaling $38.3 million. In the fourth quarter of 2008, it recognized losses on derivative financial instruments totaling $155.7 million. In late June and July of 2008, management executed various derivative financial instruments for August and September soybean meal and corn prices because they were concerned that prices could escalate based on various factors such as the recent flooding in the areas where these grains were produced and recent trends in commodity prices. After entering into these positions, the prices of the commodities decreased significantly in July and August of 2008 creating these losses.

- As the result of the downward pressure placed on earnings by the increased cost of feed ingredients, weak demand for breast meat and the oversupply of chicken and other animal−based proteins in the US, the Company evaluated the carrying amount of its goodwill for potential impairment at September 27, 2008. We obtained valuation reports as of September 27, 2008 that indicated the carrying amount of our goodwill should be fully impaired based on current conditions. As a result, we recognized a pretax impairment charge of $501.4 million during 2008.

- Because of the current−year losses, the Company was in a cumulative loss position in both the US and Mexico for the purpose of assessing the realizability of its net deferred tax assets position. The Company did not believe it had sufficient positive evidence to conclude that realization of its net deferred tax assets position in the US and Mexico was more likely than not to occur. Therefore, the Company increased its valuation allowance and recognized related income tax expense of approximately $71.2 million during 2008.

In September 2008, the Company notified its lenders that it expected to incur a significant loss in the fourth quarter of 2008 and entered into agreements with them to temporarily waive the fixed−charge coverage ratio covenant under its credit facilities. The lenders agreed to continue to provide liquidity under the credit facilities during the thirty−day period ended October 28, 2008. On October 27, 2008, the Company entered into further agreements with its lenders to temporarily waive the fixed−charge coverage ratio and leverage ratio covenants under its credit facilities. The lenders agreed to continue to provide liquidity under the credit facilities during the thirty−day period ended November 26, 2008. On that same day, the Company also announced its intention to exercise its 30−day grace period in making a $25.7 million interest payment due on November 3, 2008 under its 8 3/8% senior subordinated notes and its 7 5/8% senior notes. On November 17, 2008, the Company exercised its 30−day grace period in making a $0.3 million interest payment due on November 17, 2008 under its 9 1/4% senior subordinated notes. On November 26, 2008, the Company entered into further agreements with its lenders to extend the temporary waivers until December 1, 2008.

Chapter 11 Bankruptcy Filings

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under the Bankruptcy Code in the Bankruptcy Court as a result of many of the items discussed under Business Environment. The cases are being jointly administered under Case No. 08−45664. The Company’s Non−filing Subsidiaries will continue to operate outside the Chapter 11 process.

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

On December 1, 2008, the New York Stock Exchange delisted our common stock from trading as a result of the Company's filing of its Chapter 11 petitions. Our common stock is now quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol "PGPDQ.PK."

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 a reclassification of $1,872.1 million to reflect as current certain long−term debt under its credit facilities that, absent the stay, would have become automatically and immediately due and payable.

Chapter 11 Process

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the US Subsidiaries to enter into the DIP Credit Agreement, and the Company, the US Subsidiaries and the other parties entered into the DIP Credit Agreement, subject to final approval of the Bankruptcy Court.

The DIP Credit Agreement provides for an aggregate commitment of up to $450 million, which permits borrowings on a revolving basis. The Company received interim approval to access $365 million of the commitment pending issuance of the final order by the Bankruptcy Court. 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 loans under the DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA and 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 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, administrative and professional expenses, and the amount owed by the Company and the Debtor 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. As of December 6, 2008, the applicable borrowing base was $324.8 million and the amount available for borrowings under the DIP Credit Agreement was $210.9 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 US Subsidiaries and are secured by a first priority priming lien on substantially all of the assets of the Company and the US 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 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 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.

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 profitability and, in the near term, restructure its obligations in a manner that allows it to obtain confirmation of a plan or 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. The Company has also reduced production capacity in the near term by closing two production complexes and consolidating operations at a third production complex into its other facilities. This action resulted in a headcount reduction of approximately 2,300 production employees. Subsequent to September 27, 2008, the Company also reduced headcount by 335 non−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. Our chicken segment includes sales of chicken products we produce and purchase for resale in the US, including Puerto Rico, and Mexico. Our chicken segment conducts separate operations in the US, Puerto Rico and Mexico and is reported as two separate geographical areas. Substantially all of the assets and operations of the Gold Kist acquisition are included in our US chicken segment since the date of acquisition.

Our other products segment includes distribution of non−poultry products that are purchased from third parties and sold to independent grocers and quick service restaurants. Also included in this category are sales of table eggs, feed, protein products, live hogs and other items, some of which are produced or raised by the Company.

Inter−segment sales, which are not material, are accounted for at prices comparable to normal trade customer sales. Corporate expenses are allocated to Mexico based upon various apportionment methods for specific expenditures incurred related thereto with the remaining amounts allocated to the US portions of the segments based on number of employees.

Assets associated with our corporate functions, including cash and cash equivalents and investments in available for sale securities, are included in our chicken segment.

Selling, general and administrative expenses related to our distribution centers are allocated based on the proportion of net sales to the particular segment to which the product sales relate.

Depreciation and amortization, total assets and capital expenditures of our distribution centers are included in our chicken segment based on the primary focus of the centers.

The following table presents certain information regarding our segments:

As of or for the Year Ended	September 27, 2008	September 29, 2007(a)	September 30, 2006
		(In thousands)	
Net sales to customers:			
Chicken:			
United States	$ 7,077,047	$ 6,328,354	$ 4,098,403
Mexico	543,583	488,466	418,745
Subtotal	7,620,630	6,816,820	4,517,148
Other Products:			
United States	869,850	661,115	618,575
Mexico	34,632	20,677	17,006
Subtotal	904,482	681,792	635,581
Total	$ 8,525,112	$ 7,498,612	$ 5,152,729
Operating income (loss):			
Chicken:			
United States(b)	$ (1,135,370)	$ 192,447	$ 28,619
Mexico	(25,702)	13,116	(17,960)
Subtotal	(1,161,072)	205,563	10,659
Other Products:			
United States	98,863	28,636	(1,192)
Mexico	4,513	2,992	1,638
Subtotal	103,376	31,628	446
Total	$ (1,057,696)	$ 237,191	$ 11,105
Depreciation and amortization(c)(d)(e):			
Chicken:			
United States	$ 215,586	$ 183,808	$ 114,516
Mexico	10,351	11,015	11,305
Subtotal	225,937	194,823	125,821
Other Products:			
United States	13,354	8,278	7,743
Mexico	244	215	146
Subtotal	13,598	8,493	7,889
Total	$ 239,535	$ 203,316	$ 133,710
Total assets(f):			
Chicken:			
United States	$ 2,733,089	$ 3,247,812	$ 1,909,129
Mexico	372,952	348,894	361,887
Subtotal	3,106,041	3,596,706	2,271,016
Other Products:			
United States	153,607	104,644	89,447
Mexico	5,542	4,120	1,660
Subtotal	159,149	108,764	91,107
Total	$ 3,265,190	$ 3,705,470	$ 2,362,123
Acquisitions of property, plant and equipment (excluding business acquisition)(g):			
Chicken:			
United States	$ 148,811	$ 164,449	$ 133,106
Mexico	545	1,633	6,536
Subtotal	149,356	166,082	139,642
Other Products:			
United States	2,815	5,699	3,567
Mexico	330	40	416
Subtotal	3,145	5,739	3,983
Total	$ 152,501	$ 171,821	$ 143,625

(a) The Company acquired Gold Kist on December 27, 2006 for $1.139 billion.

(b) Includes goodwill impairment of $501.4 million and restructuring charges of $29.3 million in 2008.

(c) Includes amortization of capitalized financing costs of approximately $4.9 million, $6.6 million and $2.6 million in 2008, 2007 and 2006, respectively.

(d) Includes amortization of intangible assets of $10.2 million, $8.1 million and $1.8 million recognized in 2008, 2007 and 2006 related primarily to the Gold Kist and ConAgra Chicken acquisitions.

(e) Excludes depreciation costs incurred by our discontinued turkey business of $0.7 million, $1.6 million and $1.4 million during 2008, 2007 and 2006, respectively.

(f) Excludes total assets of our discontinued turkey business of $33.5 million at September 27, 2008, $68.8 million at September 29, 2007 and $64.7 million at September 30, 2006.

(g) Excludes acquisitions of property, plant and equipment by our discontinued turkey business of $0.5 million and $0.3 million during 2007 and 2006, respectively. Acquisitions of property, plant and equipment by our discontinued turkey business during 2008 were immaterial.

The following table presents certain items as a percentage of net sales for the periods indicated:

	2008	2007	2006
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	101.8 %	92.1 %	94.2 %
Operational restructuring charges	0.1 %	— %	— %
Gross profit (loss)	(1.9) %	7.9 %	5.8 %
Selling, general and administrative ("SG&A") expenses	4.4 %	4.7 %	5.6 %
Goodwill impairment	5.9 %	— %	— %
Administrative restructuring charges	0.2 %	— %	— %
Operating income (loss)	(12.4) %	3.2 %	0.2 %
Interest expense, net	1.5 %	1.6 %	0.8 %
Income (loss) from continuing operations before income taxes	(13.9) %	1.3 %	(0.5) %
Income (loss) from continuing operations	(11.6) %	0.7 %	(0.5) %
Net income (loss)	(11.7) %	0.6 %	(0.7) %

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

Results of Operations

2008 Compared to 2007

Net Sales. Net sales for 2008 increased $1,026.5 million, or 13.7%, over 2007. The following table provides additional information regarding net sales:

Source	2008	Change from 2007 Amount	Change from 2007 Percent	
	(In millions, except percent data)			
Chicken:				
United States	$ 7,077.0	$ 748.7	11.8%	(a)
Mexico	543.6	55.1	11.3%	(b)
Total chicken	7,620.6	803.8	11.8%	
Other products:				
United States	869.9	208.8	31.6%	(c)
Mexico	34.6	13.9	67.1%	(d)
Total other products	904.5	222.7	32.7%	
Total net sales	$ 8,525.1	$ 1,026.5	13.7%	

(a) US chicken sales generated in 2008 increased 11.8% from US chicken sales generated in 2007. Sales volume increased 8.6% primarily because of the acquisition of Gold Kist on December 27, 2006. Net revenue per pound sold increased 3.0% from the prior year.

(b) Mexico chicken sales generated in 2008 increased 11.3% from Mexico chicken sales generated in 2007 primarily because of a 3.5% increase in revenue per pound sold and a 7.6% increase in pounds sold. The increase in pounds sold represents market penetration in Mexico's avian influenza free states as well as a shift in product mix toward live birds.

(c) US sales of other products generated in 2008 increased 31.6% from US sales of other products generated in 2007 mainly as the result of improved pricing on commercial eggs and protein conversion products and higher sales volumes of protein conversion products. 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 2008 increased 67.1% from Mexico sales of other products generated in 2007 principally because of both higher sales volumes and higher selling prices for commercial feed.

Gross Profit (Loss). Gross loss generated in 2008 decreased $756.2 million, or 127.6%, from gross profit generated in 2007. The following table provides gross profit (loss) information:

Components	2008	Change from 2007 Amount	Change from 2007 Percent	Percent of Net Sales 2008	Percent of Net Sales 2007	
	(In millions, except percent data)					
Net sales	$ 8,525.1	$ 1,026.5	13.7 %	100.0 %	100.0 %	
Cost of sales	8,675.5	1,769.6	25.6 %	101.8 %	92.1 %	(a)
Operational restructuring charges	13.1	13.1	NM	0.1 %	— %	(b)
Gross loss	$ (163.5)	$ (756.2)	(127.6) %	(1.9) %	7.9 %	(c)

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(a) Cost of sales incurred by the US operations during 2008 increased $1,661.6 million from cost of sales incurred by the US operations during 2007. This increase occurred because of incremental costs resulting from increased feed ingredients and energy costs as well as the acquisition of Gold Kist on December 27, 2006. We also experienced in 2008, and continue to experience, increased production and freight costs related to operational inefficiencies, labor shortages at several facilities and higher fuel costs. We believe the labor shortages are attributable in part to heightened publicity of governmental immigration enforcement efforts, ongoing Company compliance efforts and continued changes in the Company's employment practices in light of recently published governmental best practices and new labor hiring regulations. During 2008, the Company recognized losses totaling $38.3 million on derivative financial instruments executed to manage its exposure to changes in corn and soybean meal prices. The aggregate loss recognized on derivative financial instruments in 2007 was immaterial. Cost of sales incurred by the Mexico operations during 2008 increased $108.0 million from cost of sales incurred by the Mexico operations during 2007 primarily because of increased feed ingredients costs.

(b) The Company recognized operational restructuring charges, composed entirely of non−cash asset impairment charges, in 2008 related to (i) the closing of two operating complexes in Arkansas and North Carolina, (ii) the closing of seven distribution centers in Florida (2), Iowa, Mississippi, Ohio, Tennessee and Texas, and (iii) the idling of an operating complex in Louisiana.

(c) Gross loss as a percent of net sales generated in 2008 decreased 9.8 percentage points from gross profit as a percent of sales generated in 2007 primarily because of incremental costs resulting from increased feed ingredients, energy, production and freight costs, charges related to 2008 restructuring actions and the Gold Kist acquisition partially offset by improved selling prices.

NM Not meaningful.

Operating Income (Loss). Operating loss generated in 2008 decreased $1,294.9 million, or 545.9%, from operating income generated in 2007. The following tables provide operating income (loss) information:

Source	2008	Change from 2007	
		Amount	Percent
	(In millions, except percent data)		
Chicken:			
United States	$ (1,135.4)	$ (1,327.8)	(690.0) %
Mexico	(25.7)	(38.8)	(296.2) %
Total chicken	(1,161.1)	(1,366.6)	(694.8) %
Other products:			
United States	98.9	70.2	245.2 %
Mexico	4.5	1.5	50.0 %
Total other products	103.4	71.7	226.9 %
Total net sales	$ (1,057.7)	$ (1,294.9)	(545.9) %

Components	2008	Change from 2007		Percent of Net Sales		
		Amount	Percent	2008	2007	
	(In millions, except percent data)					
Gross profit (loss)	$ (163.5)	$ (756.2)	(127.6) %	(1.9) %	7.9 %	
SG&A expenses	376.6	21.1	5.9 %	4.4%	4.7 %	(a)
Goodwill impairment	501.4	501.4	NM	5.9	—	(b)
Administrative restructuring charges	16.2	16.2	NM	0.2%	— %	(c)
Operating loss	$ (1,057.7)	$ (1,294.9)	(545.9) %	(12.4) %	3.2 %	(d)

(a) SG&A expenses incurred by the US operations during 2008 increased 6.9% from SG&A expenses incurred by the US operations during 2007 primarily because of the acquisition of Gold Kist on December 27, 2006.

(b) As the result of the downward pressure placed on earnings by increased feed ingredients costs, weak demand for breast meat and the oversupply of chicken and other animal−based proteins in the US, the Company evaluated the carrying amount of its goodwill for potential impairment at September 27, 2008. We obtained valuation reports as of September 27, 2008 that indicated the carrying amount of our goodwill should be fully impaired based on current conditions. As a result, we recognized a pretax impairment charge of $501.4 million during 2008.

(c) The Company incurred administrative restructuring charges, composed entirely of cash−based severance, employee retention, lease commitment and other facility closing charges, in 2008 related to (i) the closing of two operating complexes in Arkansas and North Carolina, (ii) the closing of seven distribution centers in Florida (2), Iowa, Mississippi, Ohio, Tennessee and Texas, (iii) the idling of an operating complex in Louisiana, (iv) the transfer of operations from an operating complex in Arkansas to several of the Company's other operating complexes, and (v) the closing of an administrative office in Georgia.

(d) Operating loss as a percent of net sales generated in 2008 decreased 15.6 percentage points from operating income as a percent of sales generated in 2007 primarily because of deterioration in gross profit (loss) performance, goodwill impairment recognized in 2008, charges related to 2008 restructuring actions and incremental SG&A expenses resulting from the Gold Kist acquisition.

NM Not meaningful.

Interest Expense. Consolidated interest expense increased 9.0% to $134.2 million in 2008 from $123.2 million in 2007 primarily because of increased borrowings related to the acquisition of Gold Kist and the funding of losses as well as a decrease in amounts of interest capitalized during the year. These factors were partially offset by early extinguishment of debt totaling $299.6 million in September 2007 and lower interest rates on our variable−rate credit facilities. Interest expense represented 1.6% of net sales in both 2008 and 2007.

Loss on Early Extinguishment of Debt. During 2007, the Company recognized loss on early extinguishment of debt of $26.4 million, which included premiums of $16.9 million along with unamortized loan costs of $9.5 million. These losses related to the redemption of $77.5 million of our 9 1/4/% Senior Subordinated Notes due 2013 and all of our 9 5/8% Senior Notes due 2011.

Income Tax Expense. The Company's consolidated income tax benefit in 2008 was $(194.9) million, compared to tax expense of $47.3 million in 2007. The change in income tax expense (benefit) resulted primarily from net operating losses incurred in 2008 which are offset by the tax effect of goodwill impairment and valuation allowances established for deferred tax assets we believe no longer meet the more likely than not realization criteria of SFAS 109, Accounting for Income Taxes. See Note M—Income Taxes to the Consolidated Financial Statements.

Loss from operation of discontinued business. The Company generated a loss from the operation of its discontinued turkey business of $11.7 million ($7.3 million, net of tax) during 2008 compared to a loss of $7.2 million ($4.5 million, net of tax) during 2007. Net sales generated by the discontinued turkey business in 2008 and 2007 were $86.3 million and $100.0 million, respectively.

Gain on disposal of discontinued business. In March 2008, the Company sold certain assets of its discontinued turkey business and recognized a gain of $1.5 million ($0.9 million, net of tax).

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2007 Compared to 2006

Net Sales. Net sales generated in 2007 increased $2,345.9 million, or 45.5%, from net sales generated in 2006. The following table provides additional information regarding net sales:

Source	2007	Change from 2006 Amount	Change from 2006 Percent	
	(In millions, except percent data)			
Chicken:				
United States	$ 6,328.3	$ 2,229.9	54.4%	(a)
Mexico	488.5	69.8	16.7%	(b)
Total chicken	6,816.8	2,299.7	50.9%	
Other products:				
United States	661.1	42.5	6.9%	(c)
Mexico	20.7	3.7	21.6%	(d)
Total other products	681.8	46.2	7.3%	
Total net sales	$ 7,498.6	$ 2,345.9	45.5%	

(a) US chicken sales generated in 2007 increased 54.4% from US chicken sales generated in 2006 primarily as the result of a 41.1% increase in volume due to the acquisition of Gold Kist on December 27, 2006, increases in the average selling prices of chicken and, for legacy Pilgrim's Pride products, an improved product mix containing more higher−margin, value−added products.

(b) Mexico chicken sales generated in 2007 increased 16.7% from Mexico chicken sales generated in 2006 due primarily to increases in production and a 21.2% increase in pricing per pound sold.

(c) US sales of other products generated in 2007 increased 6.9% from US sales of other products generated in 2007 primarily due to the acquisition of Gold Kist on December 27, 2006 and improved pricing on protein conversion products.

(d) Mexico sales of other products generated in 2007 increased 21.6% from Mexico sales of other products generated in 2006 principally because of both higher sales volumes and higher selling prices for commercial feed.

Gross Profit. Gross profit generated in 2007 increased $295.7 million, or 99.5%, from gross profit generated in 2006. The following table provides gross profit information:

Components	2007	Change from 2006 Amount	Change from 2006 Percent	Percent of Net Sales 2007	Percent of Net Sales 2006	
	(In millions, except percent data)					
Net sales	$ 7,498.6	$ 2,345.9	45.5%	100.0%	100.0%	
Cost of sales	6,905.9	2,050.2	42.2%	92.1%	94.2%	(a)
Gross profit	$ 592.7	$ 295.7	99.5%	7.9%	5.8%	(b)

(a) Cost of sales incurred by the US operations in 2008 increased $2,007.7 million due primarily to the acquisition of Gold Kist and increased quantities and costs of energy and feed ingredients. We also experienced in 2007, and continue to experience, increased production and freight costs related to operational inefficiencies, labor shortages at several facilities and higher fuel costs. We believe the labor shortages are attributable in part to heightened publicity of governmental immigration enforcement efforts, ongoing Company compliance efforts and continued changes in the Company's employment practices in light of recently published governmental best practices and new labor hiring regulations. Cost of sales incurred by our Mexico operations increased $42.5 million primarily due to increased feed ingredient costs.

(b) Gross profit as a percent of net sales generated in 2007 improved 2.1 percentage points from gross profit as a percent of net sales generated in 2006 due primarily to increased selling prices throughout the industry in response to increased feed ingredients costs.

Operating Income. Operating income generated in 2007 increased $226.1 million, or 2,035.9%, from operating income generated in 2006. The following table provides operating income information:

Source	2007	Change from 2006	
		Amount	Percent
	(In millions, except percent data)		
Chicken:			
United States	$ 192.5	$ 163.9	572.4 %
Mexico	13.1	31.0	173.0 %
Total chicken	205.6	194.96	1,828.5 %
Other products:			
United States	28.6	29.8	2,502.3 %
Mexico	3.0	1.4	82.7 %
Total other products	31.6	31.2	6,691.5 %
Total net sales	$ 237.2	$ 226.1	2,035.9 %

Components	2007	Change from 2006		Percent of Net Sales		
		Amount	Percent	2007	2006	
	(In millions, except percent data)					
Gross profit	$ 592.7	$ 295.7	99.5 %	7.9 %	5.8 %	
SG&A expenses	355.5	69.6	24.3 %	4.7 %	5.6 %	(a)
Operating income	$ 237.2	$ 226.1	2,035.9 %	3.2 %	0.2 %	(b)

(a) SG&A expenses incurred during 2007 increased from SG&A expenses incurred during 2006 primarily because of the acquisition of Gold Kist on December 27, 2006.

(b) Operating income as a percent of net sales generated in 2007 increased 3.0 percentage points from operating income as a percent of sales generated in 2006 primarily because of the acquisition of Gold Kist, increases in the average selling prices of chicken, improved product mix and a reduction of SG&A expenses as a percentage of net sales partially offset by increased production and freight costs and the other factors described above.

Interest Expense. Consolidated interest expense increased 151.3% to $123.2 million in 2007 from $49.0 million in 2006 due primarily to increased borrowing for the acquisition of Gold Kist.

Interest Income. Interest income decreased 53.8% to $4.6 million in 2007 from $10.0 million in 2006 because of lower investment balances.

Loss on Early Extinguishment of Debt. During 2007, the Company recognized loss on early extinguishment of debt of $26.4 million, which included premiums of $16.9 million along with unamortized loan costs of $9.5 million. These losses related to the redemption of $77.5 million of our 9 1/4% Senior Subordinated Notes due 2013 and all of our 9 5/8% Senior Notes due 2011.

Income Tax Expense. Consolidated income tax expense in 2007 was $47.3 million compared to tax benefit of $1.6 million in 2006. The increase in consolidated income tax expense is the result of the pretax earnings in 2007 versus pretax loss in 2006 and an increase in tax contingency reserves. In addition, 2006 results included income tax expense of $25.8 million for the restructuring of the Mexico operations and subsequent repatriation of earnings from Mexico under the American Jobs Creation Act of 2004 and a $10.6 million benefit from a change in an estimate. See Note M—Income Taxes to the Consolidated Financial Statements.

Loss from operation of discontinued business. The Company incurred a loss from the operation of its discontinued turkey business of $7.2 million ($4.5 million, net of tax) during 2007 compared to $9.7 million ($6.0 million, net of tax) during 2006. Net sales generated by the discontinued turkey business in 2007 and 2006 were $100.0 million and $82.8 million, respectively.

Liquidity and Capital Resources

Our disclosure regarding liquidity and capital resources has three distinct sections, the first relating to our historical flow of funds, the second relating to our liquidity, debt obligations and off−balance sheet arrangements at September 27, 2008 and the third discussing our liquidity after filing for Chapter 11 bankruptcy protection on December 1, 2008.

Historical Flow of Funds

Cash flows used in operating activities were $680.7 million in 2008 compared to cash flows provided by operating activities of $464.0 million in 2007. The decrease in operating cash flows from 2007 to 2008 was primarily due to the net loss incurred in 2008 as compared to net income generated in 2007 and unfavorable changes in operating assets and liabilities.

At September 27, 2008, our working capital decreased to a deficit of $1,262.2 million and our current ratio decreased to 0.53 to 1, compared with a working capital surplus of $394.7 million and a current ratio of 1.44 to 1 at September 29, 2007 primarily due to an increase in the balance of current maturities of long−term debt and a decrease in the income taxes receivable balance partially offset by higher accounts receivable, inventories as well as lower accounts payable and accrued expenses balances.

Current maturities of long−term debt were $1,874.5 million at September 27, 2008 compared to $2.9 million at September 29, 2007. The $1,871.6 million increase in current maturities was primarily due to the Company's reclassification of $1,872.1 million to reflect as current the long−term debt under its various credit facilities that will become payable on November 27, 2008 unless the lenders thereunder agree to extend previously granted waivers.

Income taxes receivable were $21.7 million at September 27, 2008 compared to $61.9 million at September 29, 2007. The $40.2 million decrease in income taxes receivable was primarily due to the reclassification of net operating losses incurred in 2007 to deferred income taxes.

Trade accounts and other receivables were $144.2 million at September 27, 2008 compared to $114.7 million at September 29, 2007. The $29.5 million increase in trade accounts and other receivables was primarily due to higher sales volumes in the later portion of the fourth quarter of 2008 than were generated in the later portion of the fourth quarter of 2007.

Inventories were $1,036.2 million at September 27, 2008 compared to $925.3 million at September 29, 2007. The $110.9 million increase in inventories was primarily due to increased product costs in finished chicken products and live inventories as a result of higher feed ingredient costs.

Current deferred tax assets were $54.3 million at September 27, 2008 compared to $8.1 million at September 29, 2007. The $46.2 million increase in deferred tax assets was primarily the result of net operating losses incurred during 2007 and 2008.

Accounts payable decreased $19.6 million to $378.9 million at September 27, 2008 compared to $398.5 million at September 29, 2007. The decrease was primarily due to the impact of closing one operating complex and six distribution centers in the second quarter of 2008 partially offset by higher feed ingredients costs.

Accrued expenses decreased $48.4 million to $448.8 million at September 27, 2008 compared to $497.3 million at September 29, 2007. This decrease is due principally to a reduction in interest payable resulting from lower interest rates on our variable−rate notes payable, decreased incentive compensation accruals and amortization of acquisition−related liabilities such as unfavorable sales contracts and unfavorable lease contracts.

Cash flows used in investing activities were $121.6 million and $1,184.5 million in 2008 and 2007, respectively. Cash of $1.102 billion was used to acquire Gold Kist in 2007. Capital expenditures (excluding business acquisitions) of $152.5 million and $172.3 million in 2008 and 2007, respectively, were primarily incurred to acquire and expand certain facilities, improve efficiencies, reduce costs and for the routine replacement of equipment. 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 of $38.0 million in 2008 and $125.0 million in 2007. Cash proceeds received in 2008 and 2007 from the sale or maturity of investment securities totaled $27.5 million and $208.7 million, respectively. Cash proceeds received in 2008 and 2007 totaled $41.4 million and $6.3 million from the disposal of property, plant and equipment.

Cash flows provided by financing activities totaled $797.7 million and $630.2 million in 2008 and 2007, respectively. Cash proceeds received in 2008 and 2007 from long−term debt were $2,264.9 million and $1,981.3 million, respectively. Cash proceeds received in 2008 from the sale of the Company's common stock totaled $177.2 million (net of costs incurred to complete the sale). Cash was used to repay long−term debt totaling $1,646.0 million in 2008 and $1,368.7 million in 2007. Cash provided in 2008 and 2007 because of an increase in outstanding cash management obligations totaled $13.6 million and $39.2 million, respectively. Cash was used to pay debt issue and amendment costs totaling $5.6 million and $15.6 million in 2008 and 2007, respectively. Cash was also used to pay dividends of $6.3 million and $6.0 million to holders of the Company's common stock in 2008 and 2007, respectively.

Liquidity, Debt Obligations and Off−Balance Sheet Arrangements at September 27, 2008

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

Source of Liquidity	Facility Amount	Amount Outstanding	Amount Available	
		(In millions)		
Cash and cash equivalents	$ —	$ —	$ 61.6	
Investments in available−for−sale securities	$ —	—	$ 10.4	
Receivables purchase agreement	$ 300.0	$ 236.3	$ —	(a)
Debt facilities:				
Revolving credit facilities	$ 351.6	$ 233.5	$ 32.1	(b)(c)
Revolving/term facility	$ 550.0	$ 415.0	$ 135.0	(c)

(a) The aggregate amount of receivables sold plus the remaining receivables available for sale declined from $300.0 million at September 29, 2007 to $236.3 million at September 27, 2008.

(b) At September 27, 2008, the Company had $86.0 million in letters of credit outstanding relating to normal business transactions that reduce the amount of available liquidity under the revolving credit facilities.

(c) The Company entered into waiver agreements with certain of its lenders on September 26, 2008. In connection with those agreements, the Company agreed to have at all times during the term of those waiver agreements undrawn commitments in an aggregate amount not less than $100 million, which effectively reduced the aggregate available amount under these facilities as of September 27, 2008 to approximately $67.1 million. On October 10, 2008, the required lenders under the Company's credit agreements agreed to reduce the required undrawn commitment holdback to $75 million. On October 26, 2008, the required lenders agreed to further reduce the required undrawn commitment holdback to $35 million.

Debt Obligations. In September 2006, the Company entered into an amended and restated revolver/term credit agreement with a maturity date of September 21, 2016. At September 27, 2008, this revolver/term credit agreement provided for an aggregate commitment of $1.172 billion consisting of (i) a $550 million revolving/term loan commitment and (ii) $622.4 million in various term loans. At September 27, 2008, the Company had $415.0 million outstanding under the revolver and $620.3 million outstanding in various term loans. The total credit facility is presently secured by certain fixed assets. On September 21, 2011, outstanding borrowings under the revolving/term loan commitment will be converted to a term loan maturing on September 21, 2016. The fixed rate term loans bear interest at rates ranging from 7.34% to 7.56%. The voluntary converted loans bear interest at rates ranging from LIBOR plus 1.0%−2.0%, depending upon the Company's total debt to capitalization ratio. The floating rate term loans bear interest at LIBOR 1.50%−1.75% based on the ratio of the Company's debt to EBITDA, as defined in the agreement. The revolving/term loans provide for interest rates ranging from LIBOR plus 1.0%−2.0%, depending upon the Company's total debt to capitalization ratio. Commitment fees charged on the unused balance of this facility range from 0.20% to 0.40%, depending upon the Company's total debt to capitalization ratio. In connection with temporary amendments to certain of the financial covenants in this agreement on April 30, 2008, the interest rates were temporarily increased until September 26, 2009 to the following ranges: (i) voluntary converted loans: LIBOR plus 1.5%−3.0%; (ii) floating rate terms loans: LIBOR plus 2.00%−2.75%; and (iii) revolving term loans: LIBOR plus 1.5%−3.0%. In connection with these amendments, the commitment fees were temporarily increased for the same period to range from 0.275%−0.525%. As a result of the Company's Chapter 11 filing, after December 1, 2008, interest will accrue at the default rate, which is two percent above the interest rate otherwise applicable under the credit agreement. One−half of the outstanding obligations under the revolver/term credit agreement are guaranteed by Pilgrim

Interests, Ltd., an entity affiliated with our Senior Chairman, Lonnie "Bo" Pilgrim. The filing of the bankruptcy petitions also constituted an event of default under this credit agreement. The total principal amount owed under this credit agreement was approximately $1,126.4 million as of December 1, 2008. As a result of such event of default, all obligations under the agreement 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.

In January 2007, the Company borrowed (i) $780 million under our revolver/term credit agreement and (ii) $450 million under our Bridge Loan agreement to fund the Gold Kist acquisition. On January 24, 2007, the Company closed on the sale of $400 million of 7 5/8% Senior Notes due 2015 (the "Senior Notes") and $250 million of 8 3/8% Senior Subordinated Notes due 2017 (the "Subordinated Notes"), sold at par. Interest is payable on May 1 and November 1 of each year, beginning November 1, 2007. Prior to the Chapter 11 filings, the notes were subject to certain early redemption features. The proceeds from the sale of the notes, after underwriting discounts, were used to (i) retire the loans outstanding under our Bridge Loan agreement, (ii) repurchase $77.5 million of the Company's 9 1/4% Senior Subordinated Notes due 2013 at a premium of $7.4 million plus accrued interest of $1.3 million and (iii) reduce outstanding revolving loans under our revolving/term credit agreement. Loss on early extinguishment of debt includes the $7.4 million premium along with unamortized loan costs of $7.1 million related to the retirement of these Notes.

In September 2007, the Company redeemed all of its 9 5/8% Senior Notes due 2011 at a total cost of $307.5 million. To fund a portion of the aggregate redemption price, the Company sold $300 million of trade receivables under its RPA. Loss on early extinguishment of debt includes the $9.5 million premium along with unamortized loan costs of $2.5 million related to the retirement of these Notes.

In February 2007, the Company entered into a domestic revolving credit agreement of up to $300.0 million with a final maturity date of February 18, 2013. The associated revolving credit facility provides for interest rates ranging from LIBOR plus 0.75−1.75%, depending upon our total debt to capitalization ratio. The obligations under this facility are secured by domestic chicken inventories and receivables that were not sold pursuant to the RPA. Commitment fees charged on the unused balance of this facility range from 0.175% to 0.35%, depending upon the Company's total debt to capitalization ratio. In connection with temporary amendments to certain of the financial covenants in this agreement on April 30, 2008, the interest rates were temporarily increased until September 26, 2009 to range between LIBOR plus 1.25%−2.75%. In connection with these amendments, the commitment fees were temporarily increased for the same period to range from 0.25%−0.50%. As a result of the Company's Chapter 11 filing, after December 1, 2008, interest will accrue at the default rate, which is two percent above the interest rate otherwise applicable under the credit agreement. One−half of the outstanding obligations under the domestic revolving credit facility are guaranteed by Pilgrim Interests, Ltd., an entity affiliated with our Senior Chairman, Lonnie "Bo" Pilgrim. The filing of the bankruptcy petitions also constituted an event of default under this credit agreement. The total principal amount owed under this credit agreement was approximately $199.5 million as of December 1, 2008. As a result of such event of default, all obligations under the agreement 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.

In September 2006, a subsidiary of the Company, Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the "Borrower"), entered into a secured revolving credit agreement of up to $75 million with a final maturity date of September 25, 2011. In March 2007, the Borrower elected to reduce the commitment under this agreement to 558 million Mexican pesos, a US dollar−equivalent 51.6 million at September 27, 2008. Outstanding amounts bear interest at rates ranging from the higher of the Prime Rate or Federal Funds Effective Rate plus 0.5%; LIBOR plus 1.65%−3.125%; or TIIE plus 1.05%−2.55% depending on the loan designation. Obligations under this agreement are secured by a security interest in and lien upon all capital stock and other equity interests of the Company's Mexican subsidiaries. All the obligations of the Borrower are secured by unconditional guaranty by the Company. At September 27, 2008, $51.6 million was outstanding and no other funds were available for borrowing under this line. Borrowings are subject to "no material adverse effect" provisions.

On November 30, 2008, the Company and 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 under its petitions for reorganization relief, 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.

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Our loan agreements generally obligate us to reimburse the applicable lender for incremental increased costs due to a change in law that imposes (i) any reserve or special deposit requirement against assets of, deposits with or credit extended by such lender related to the loan, (ii) any tax, duty or other charge with respect to the loan (except standard income tax) or (iii) capital adequacy requirements. In addition, some of our loan agreements contain a withholding tax provision that requires us to pay additional amounts to the applicable lender or other financing party, generally if withholding taxes are imposed on such lender or other financing party as a result of a change in the applicable tax law. These increased cost and withholding tax provisions continue for the entire term of the applicable transaction, and there is no limitation on the maximum additional amounts we could be obligated to pay under such provisions.

At September 27, 2008, the Company was not in compliance with the provisions that required it to maintain levels of working capital and net worth and to maintain various fixed charge, leverage, current and debt−to−equity ratios. In September 2008, the Company notified its lenders that it expected to incur a significant loss in the fourth quarter of 2008 and entered into agreements with them to temporarily waive the fixed−charge coverage ratio covenant under its credit facilities. The lenders agreed to continue to provide liquidity under the credit facilities during the thirty−day period ended October 28, 2008. On October 27, 2008, the Company entered into further agreements with its lenders to temporarily waive the fixed−charge coverage ratio and leverage ratio covenants under its credit facilities. The lenders agreed to continue to provide liquidity under the credit facilities during the thirty−day period ended November 26, 2008. On November 26, 2008, the Company entered into further agreements with its lenders to extend the temporary waivers until December 1, 2008.

The filing of the bankruptcy petitions also constituted an event of default under 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. The total principal amount of the Notes was approximately $657 million as of December 1, 2008. As a result of such event of default, all obligations under the Notes 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.

Off−Balance Sheet Arrangements. In June 1999, the Camp County Industrial Development Corporation issued $25.0 million of variable−rate environmental facilities revenue bonds supported by letters of credit obtained by us. At September 27, 2008 and 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. There was no requirement that we borrow the full amount of the proceeds from these revenue bonds and we had not drawn on the proceeds or commenced construction of the facility as of September 27, 2008. Had the Company borrowed these funds, they would have become due in 2029. The revenue bonds are supported by letters of credit obtained by us under our revolving credit facilities, which are secured by our domestic chicken inventories. The bonds would have been recorded as debt of the Company if and when they were spent to fund construction. The original proceeds from the issuance of the revenue bonds continue to be held by the trustee of the bonds. The interest payment on the revenue bonds, which was due on December 1, 2008, was not paid. 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 addition, the holders of the bonds may tender the bonds for remarketing at any time. We have been notified that the holders have tendered the bonds, which are required to be remarketed on or before December 16, 2008. If the bonds are not successfully remarketed by that date, the holders of the bonds may draw upon the letters of credit supporting the bonds.

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables (the "Pooled 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 aggregate amount of Pooled Receivables sold plus the remaining Pooled Receivables available for sale under the RPA declined from $300.0 million at September 29, 2007 to $236.3 million at September 27, 2008. The outstanding amount of Pooled Receivables sold at September 27, 2008 and September 29, 2007 were $236.3 million and $300.0 million, respectively. The gross proceeds resulting from the sale are included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The losses recognized on the sold receivables during 2008 and 2007 were 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 maintain operating leases for various types of equipment, some of which contain residual value guarantees for the market value of assets at the end of the term of the lease. The terms of the lease maturities range from one to seven years. We estimate the maximum potential amount of the residual value guarantees is approximately $19.9 million; however, the actual amount would be offset by any recoverable amount based on the fair market value of the underlying leased assets. No liability has been recorded related to this contingency as the likelihood of payments under these guarantees is not considered to be probable and the fair value of the guarantees is immaterial. We historically have not experienced significant payments under similar residual guarantees.

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.

Liquidity after Chapter 11 Bankruptcy Filings

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 a reclassification of $1,872.1 million to reflect as current certain long−term debt under its credit facilities that became automatically and immediately due and payable.
On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and US Subsidiaries to enter into the DIP Credit Agreement, and the Company, the US Subsidiaries and the other parties entered into the DIP Credit Agreement, subject to final approval of the Bankruptcy Court.

The DIP Credit Agreement provides for an aggregate commitment of up to $450 million, which permits borrowings on a revolving basis. The Company received interim approval to access $365 million of the commitment pending issuance of the final order by the Bankruptcy Court. 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 loans under the DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA and 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 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, administrative and professional expenses, and the amount owed by the Company and the Debtor 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. As of December 6, 2008, the applicable borrowing base was $324.8 million and the amount available for borrowings under the DIP Credit Agreement was $210.9 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 US Subsidiaries and are secured by a first priority priming lien on substantially all of the assets of the Company and the US 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.

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.

In addition to our debt commitments at September 27, 2008, we had other commitments and contractual obligations that obligate us to make specified payments in the future. 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. The following table summarizes the total amounts due as of September 27, 2008 under all debt agreements, commitments and other contractual obligations. We are in the process of evaluating our executory contracts in order to determine which contracts will be assumed in our Chapter 11 proceedings. Therefore, obligations as currently quantified in the table below and in the footnotes to the table are expected to change. The table indicates the years in which payments are due under the contractual obligations.

Assuming that acceleration of certain long−term debt maturities did not occur, contractual obligations at September 27, 2008 were as follows:

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1−3 years	3−5 years	More than 5 years
	(In millions)				
Long−term debt[(a)(b(c))]	$ 1,941.9	$ 2.4	$ 56.7	$ 203.4	$ 1,679.4
Guarantee fees[(d)]	43.5	6.1	12.1	12.1	13.2
Operating leases	130.7	43.6	62.1	23.3	1.7
Purchase obligations[(e)]	164.9	164.9	—	—	—
Other commitments[(f)]	65.3	—	33.1	32.2	—
Total	$ 2,346.3	$ 217.0	$ 164.0	$ 271.0	$ 1,694.3

(a) Excludes $86.0 million in letters of credit outstanding related to normal business transactions.

(b) As a result of the Chapter 11 filing, substantially all long−term debt 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.

(c) Interest rates on long−term debt were increased as a result of the Chapter 11 filing and the amounts that will actually be paid related to interest are uncertain as they will be subject to the claims process in the bankruptcy case.

(d) Pursuant to the terms of the DIP Credit Agreement, the Company may not pay any guarantee fees without the consent of the lenders party thereto.

(e) Includes agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction.

(f) Includes unrecognized tax benefits under FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48").

Pending Adoption of Recent Accounting Pronouncements

Discussion regarding our pending adoption of Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements; SFAS No. 141(R), Business Combinations; SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51; and SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133, is included in Note B—Summary of Significant Accounting Policies to our Consolidated Financial Statements included elsewhere in this Annual Report.

Critical Accounting Policies and Estimates

General. Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the US. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, customer programs and incentives, allowance for doubtful accounts, inventories, income taxes and product recall accounting. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition. Revenue is recognized upon shipment and transfer of ownership of the product to the customer and is recorded net of estimated incentive offerings including special pricing agreements, promotions and other volume−based incentives. Revisions to these estimates are charged back to net sales in the period in which the facts that give rise to the revision become known.

Inventory. Live chicken inventories are stated at the lower of cost or market and breeder hens at the lower of cost, less accumulated amortization, or market. The costs associated with breeder hens are accumulated up to the production stage and amortized over their productive lives using the unit−of−production method. Finished poultry products, feed, eggs and other inventories are stated at the lower of cost (first−in, first−out method) or market. We record valuations and adjustments for our inventory and for estimated obsolescence at or equal to the difference between the cost of inventory and the estimated market value based upon known conditions affecting inventory obsolescence, including significantly aged products, discontinued product lines, or damaged or obsolete products. We allocate meat costs between our various finished chicken products based on a by−product costing technique that reduces the cost of the whole bird by estimated yields and amounts to be recovered for certain by−product parts. This primarily includes leg quarters, wings, tenders and offal, which are carried in inventory at the estimated recovery amounts, with the remaining amount being reflected as our breast meat cost. Generally, the Company performs an evaluation of whether any lower of cost or market adjustments are required at the segment level based on a number of factors, including: (i) pools of related inventory, (ii) product continuation or discontinuation, (iii) estimated market selling prices and (iv) expected distribution channels. If actual market conditions or other factors are less favorable than those projected by management, additional inventory adjustments may be required. At September 27, 2008, the Company has lowered the carrying value of its inventories by $26.6 million due to lower−of−cost−or−market adjustments.

Property, Plant and Equipment. The Company records impairment charges on long−lived assets used in operations when events and circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The impairment charge is determined based upon the amount the net book value of the assets exceeds their fair market value. In making these determinations, the Company utilizes certain assumptions, including, but not limited to: (i) future cash flows estimated to be generated by these assets, which are based on additional assumptions such as asset utilization, remaining length of service and estimated salvage values; (ii) estimated fair market value of the assets; and (iii) determinations with respect to the lowest level of cash flows relevant to the respective impairment test, generally groupings of related operational facilities. Given the interdependency of the Company's individual facilities during the production process, which operate as a vertically integrated network, and the fact that the Company does not price transfers of inventory between its vertically integrated facilities at market prices, it evaluates impairment of assets held and used at the country level (i.e., the US and Mexico) within each segment. Management believes this is the lowest level of identifiable cash flows for its assets that are held and used in production activities. At the present time, the Company's forecasts indicate that it can recover the carrying value of its 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 return to 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 recognized impairment charges related to closed production complexes and distribution centers totaling $10.2 million during 2008.

Goodwill. The Company evaluates goodwill for impairment annually or at other times when events and circumstances indicate the carrying value of this asset may no longer be fully recoverable. The Company first compares the fair value of each reporting unit, determined using both income and market approaches, to its carrying value. To determine the fair value of each reporting unit, the Company utilizes certain assumptions, including, but not limited to: (i) future cash flows estimated to be generated by each reporting unit, which are based on additional assumptions such as future market growth and trends, forecasted revenue and costs, appropriate discount rates and other variables, (ii) estimated value of the enterprise in the equity markets, and (iii) determinations with respect to the combination of operations that comprise a reporting unit. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company does not perform further testing. If the carrying value of a reporting unit's net assets exceeds the fair value of the reporting unit, then the Company determines the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment of goodwill has occurred and the Company recognizes an impairment loss for the difference between the carrying amount and the implied fair value of goodwill. At September 27, 2008, the Company recognized an impairment charge of $501.4 million, which eliminated all goodwill.

Litigation and Contingent Liabilities. The Company is subject to lawsuits, investigations and other claims related to employment, environmental, product, and other matters. It is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, including legal defense costs, if any, for these contingencies is made when losses are determined to be probable and loss amounts can be reasonably estimated, and after considerable analysis of each individual issue. With respect to our environmental remediation obligations, the accrual for environmental remediation liabilities is measured on an undiscounted basis. These reserves may change in the future due to favorable or adverse judgments, changes in the Company's assumptions, the effectiveness of strategies or other factors beyond the Company's control.

Accrued Self Insurance. Insurance expense for casualty claims and employee−related health care benefits are estimated using historical experience and actuarial estimates. Stop−loss coverage is maintained with third party insurers to limit the Company's total exposure. Certain categories of claim liabilities are actuarially determined. The assumptions used to arrive at periodic expenses are reviewed regularly by management. However, actual expenses could differ from these estimates and could result in adjustments to be recognized.

Business Combinations. The Company allocates the total purchase price in connection with acquisitions to assets and liabilities based upon their estimated fair values. For property, plant and equipment and intangible assets other than goodwill, for significant acquisitions, the Company has historically relied upon the use of third party valuation experts to assist in the estimation of fair values. Historically, the carrying value of acquired accounts receivable, inventory and accounts payable have approximated their fair value as of the date of acquisition, though adjustments are made within purchase price accounting to the extent needed to record such assets and liabilities at fair value. With respect to accrued liabilities, the Company uses all available information to make its best estimate of the fair value of the acquired liabilities and, when necessary, may rely upon the use of third party actuarial experts to assist in the estimation of fair value for certain liabilities, primarily self−insurance accruals.

Income Taxes. The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes reflect the net tax effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carry forwards. The amount of deferred tax on these temporary differences is determined using the tax rates expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on the tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized. Valuation allowances have been established primarily for US federal and state net operating loss carry forwards and Mexico net operating loss carry forwards. See Note M—Income Taxes to the Consolidated Financial Statements.

Indefinite Reinvestment in Foreign Subsidiaries. Taxes are provided for foreign subsidiaries based on the assumption that their earnings will be indefinitely reinvested. As such, US deferred income taxes have not been provided on these earnings. If such earnings were not considered indefinitely reinvested, certain deferred foreign and US income taxes would be provided.

Accounting for Uncertainty in Income Taxes. On September 30, 2007, and effective for 2008, we adopted the provisions of FIN 48. FIN 48 provides a recognition threshold and measurement criteria for the financial statement recognition of a tax benefit taken or expected to be taken in a tax return. Tax benefits are recognized only when it is more likely than not, based on the technical merits, that the benefits will be sustained on examination. Tax benefits that meet the more−likely−than−not recognition threshold are measured using a probability weighting of the largest amount of tax benefit that has greater than 50% likelihood of being realized upon settlement. Whether the more−likely−than−not recognition threshold is met for a particular tax benefit is a matter of judgment based on the individual facts and circumstances evaluated in light of all available evidence as of the balance sheet date. See Note M—Income Taxes to the Consolidated Financial Statements.

Pension and Other Postretirement Benefits. The Company's pension and other postretirement benefit costs and obligations are dependent on the various actuarial assumptions used in calculating such amounts. These assumptions relate to discount rates, salary growth, long−term return on plan assets, health care cost trend rates and other factors. The Company bases the discount rate assumptions on current investment yields on high−quality corporate long−term bonds. The salary growth assumptions reflect our long−term actual experience and future or near−term outlook. Long−term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment. Our health care cost trend assumptions are developed based on historical cost data, the near−term outlook and an assessment of likely long−term trends. Actual results that differ from our assumptions are accumulated and, if in excess of the lesser of 10% of the project benefit obligation or the fair market value of plan assets, amortized over the estimated future working life of the plan participants.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk−Sensitive Instruments and Positions

The risk inherent in our market risk−sensitive instruments and positions is primarily the potential loss arising from adverse changes in the price of feed ingredients, foreign currency exchange rates, interest rates and the credit quality of its available−for−sale securities as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity, nor do they consider additional actions our management may take to mitigate our exposure to such changes. Actual results may differ.

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. As market conditions dictate, we will attempt 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. We do not use such financial instruments for trading purposes and are not a party to any leveraged derivatives. Market risk is estimated as a hypothetical 10% increase in the weighted−average cost of our primary feed ingredients as of September 27, 2008. Based on our feed consumption during 2008, such an increase would have resulted in an increase to cost of sales of approximately $343.0 million, excluding the impact of any feed ingredients derivative financial instruments in that period. A 10% change in ending feed ingredients inventories at September 27, 2008 would be $9.5 million, excluding any potential impact on the production costs of our chicken inventories. As of September 27, 2008, the fair market value of the Company's open derivative commodity positions was an $18.0 million liability. During October 2009, all of the Company's positions were liquidated and an additional loss of $21.8 million was recognized.

Foreign Currency. Our earnings are affected by foreign exchange rate fluctuations related to the Mexican peso net monetary position of our Mexico subsidiaries. We manage this exposure primarily by attempting to minimize our Mexican peso net monetary position. We are also exposed to the effect of potential exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the US. However, we currently anticipate that the future cash flows of our Mexico subsidiaries will be reinvested in our Mexico operations. In addition, the Mexican peso exchange rate can directly and indirectly impact our financial condition and results of operations in several ways, including potential economic recession in Mexico because of devaluation of their currency. The impact on our financial position and results of operations resulting from a hypothetical change in the exchange rate between the US dollar and the Mexican peso cannot be reasonably estimated. Foreign currency exchange gains and losses, representing the change in the US dollar value of the net monetary assets of our Mexico subsidiaries denominated in Mexican pesos, was a gain of $0.6 million in 2008, a loss of $1.4 million in 2007 and a loss of $0.1 million in 2006. The average exchange rates for 2008, 2007 and 2006 were 10.61 Mexican pesos to 1 US dollar, 10.95 Mexican pesos to 1 US dollar and 10.87 Mexican pesos to 1 US dollar, respectively. No assurance can be given as to how future movements in the Mexican peso could affect our future financial condition or results of operations.

Interest Rates. Our earnings are also affected by changes in interest rates due to the impact those changes have on our variable−rate debt instruments. We had variable−rate debt instruments representing approximately 54.7% of our total debt at September 27, 2008. Holding other variables constant, including levels of indebtedness, an increase in interest rates of 25 basis points would have increased our interest expense by $2.7 million for 2008. These amounts are determined by considering the impact of the hypothetical interest rates on our variable−rate debt at September 27, 2008.

Market risk for fixed−rate debt is estimated as the potential increase in fair value resulting from a hypothetical decrease in interest rates of 25 basis points. Using a discounted cash flow analysis, the market risk on fixed−rate debt totaled $30.1 million as of September 27, 2008. Due to our current financial condition, our public debt is trading at a substantial discount. As of November 28, 2008, the most recent trades of our 7 5/8% senior unsecured notes and 8 3/8% senior subordinated unsecured notes were executed at $14.00 per $100.00 par value and $4.50 per $100.00 par value, respectively. 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.

Available−for−Sale Securities. 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, mortgage backed securities, collateralized debt obligations, auction−rate securities, credit derivatives, hedge funds investments, fund of funds investments or perpetual preferred securities. At September 27, 2008, the fair value of the Company's available−for−sale portfolio was $66.3 million. Management does not believe a hypothetical change in interest rates of 25 basis points or a 10% decrease in equity prices would be material to the Company.

Impact of Inflation. Due to low to moderate inflation in the US and Mexico and our rapid inventory turnover rate, the results of operations have not been significantly affected by inflation during the past three−year period.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements together with the report of our independent registered public accounting firm and financial statement schedule are included on pages 95 through 151 of this report. Financial statement schedules other than those included herein have been omitted because the required information is contained in the consolidated financial statements or related notes, or such information is not applicable.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.